Lewis Group Ltd

# ANNUAL FINANCIAL STATEMENTS

2020

FOR THE YEAR ENDED 31 MARCH 2020

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# Company information

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| Registration number: | 2004/009817/06 |
| Registered address: | 53A Victoria Road<br>Woodstock<br>7925 |
| Postal address: | P.O. Box 43<br>Woodstock<br>7915 |
| Auditors: | PricewaterhouseCoopers Inc.<br>Cape Town |
| Attorneys: | Edward Nathan Sonnenbergs |
| Bankers: | Absa Bank Limited<br>First National Bank of Africa Limited<br>Investec Bank Limited<br>Standard Bank of South Africa Limited<br>Nedbank 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 annual financial statements

The notes to the annual financial statements have been 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 a light blue background.

### Significant accounting estimates and judgements

The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements, are included in the specific notes to which they relate and are indicated with a grey background.

# 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 annual 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 annual 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 2021 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 annual financial statements and their report appears on pages 3 to 8.

The annual financial statements of the group and the company for the year ended 31 March 2020, which appear on pages 16 to 110 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
25 August 2020

# 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 2020, 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*

25 August 2020

# 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 2020, 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 (IFRS) 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 108 comprise:

- the consolidated and company balance sheets as at 31 March 2020;
- 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 sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the *International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively.

## Our audit approach

### Overview


**Overall group materiality**

- R58.1 million, which represents 0.9% of total consolidated revenue.

**Group audit scope**

- The consolidated financial statements are a consolidation of the Company and eleven subsidiaries (which represent trading entities, dormant entities, an insurance company and a management services company). The Group has seven operating subsidiaries in South Africa, Botswana, Lesotho, Eswatini and Namibia.
- Full scope audits were performed at all financially significant components, and analytical review procedures over the remaining components, based on their significance to the Group. We also performed procedures in respect of the consolidation process, in order to gain sufficient evidence over the consolidated financial statements.

**Key audit matters**

- Expected credit losses (ECL) on trade receivables; and
- Valuation of the right-of-use assets and lease liabilities recognised on adoption of IFRS 16 *"Leases"*.

# Independent auditor's report continued

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

## Materiality

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

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

| | |
|---|---|
| **Overall group materiality** | R58.1 million. |
| **How we determined it** | 0.9% of total consolidated revenue. |
| **Rationale for the materiality benchmark applied** | We have selected total consolidated revenue as the 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 can be consistently measured and thus would be most relevant to users of the consolidated financial statements, given the downward trend in profits over the last five years, whilst the other key elements of the consolidated financial statements have remained constant. We chose 0.9% based on our professional judgement, after consideration of the range of quantitative materiality thresholds that we would typically apply when using revenue to compute materiality, and taking into account the levels of the group's external debt. |

## 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 the Company and its eleven subsidiaries (which represent trading entities, dormant entities, an insurance company and a management services company). It operates mainly through its operating subsidiary, Lewis Stores Proprietary Limited, and provides insurance cover to customers through its registered short-term insurer 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 considered to be financially significant, were subject to full scope audits by auditors from within the PricewaterhouseCoopers (PwC) network of firms. Analytical review procedures were performed over the remaining components, based on their significance to the Group. We also performed procedures in respect of the consolidation process, in order to gain sufficient evidence over the consolidated financial statements.

In establishing the overall approach to the group audit, we determined the extent of the work that needed to be performed by us, as the group engagement team,and other component auditors from other PwC network firms, operating under our instruction, in order to issue our audit opinion on the consolidated financial statements of the Group. Where the work was performed by component auditors, we determined the level of involvement necessary in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence has 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 judgment, 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.

The key audit matters below relate to the consolidated financial statements. We have determined that there are no key audit matters in respect of the separate financial statements of the Company to communicate in our report.

# Independent auditor's report continued

| Key audit matter | How our audit addressed the key audit matter |
|---|---|

## Expected credit losses (ECL) on trade receivables

As at 31 March 2020, the carrying value of trade receivables was R5.7 billion, against which an ECL of R2.5 billion was recorded.

The ECL was calculated by applying IFRS 9 *'Financial Instruments'* (IFRS 9).

The Group 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 based on probability weighted cash flows considering a range of possible outcomes and discounting these cash flows at the original effective interest rate, that includes initiation fees as they are integral to the effective interest rate.

In calculating the ECL, the key areas of significant management judgement and estimation applied included:

- Assessing the impact of COVID-19 on the macro-economic model as COVID-19 is an adjusting post balance sheet event with it becoming a pandemic before balance sheet date;
- Assessing the impact of the nationwide lockdown and temporary closure of stores (including the possibility of extended full and/or partial lockdowns);
- Calculation of the probability weighted cash flows 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;
- Determination of the write-off point. 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; and
- 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). These assumptions, combined with statistical modelling inform the direction and magnitude of the economic overlay. The Group utilises at least a 5 year macroeconomic outlook of the Bureau for Economic Research to project future changes in gross domestic product (GDP) forecasts and probability weightings.

We considered the ECL on trade receivables to be a matter of most significance to our current year audit due to the following:

- the degree of judgement and estimation applied by management in determining the ECL; and
- the magnitude of the ECL recognised in the consolidated financial statements.

Refer to note 4 (Trade and other receivables and debtor costs) to the consolidated financial statements for details.

Utilising our actuarial experts we performed the procedures below.

*The calibration of ECL statistical model components was tested as follows, noting no aspects which required further consideration, as well as no material exceptions:*

- Assessed the appropriateness of the methodology applied by management in their IFRS 9 model documentation, which forms the basis of the ECL calculation, against the requirements of IFRS 9;
- Tested the 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 through independent recalculation with reference to independent sources of information obtained where applicable; and
- Tested the accuracy of the methodology applied by management's experts in their calculation of the ECL by performing an independent recalculation of the ECL values as at 31 March 2020.

*Determination of the write-off point:*

We accepted management's write-off point following evaluation of management's assessment of historical post write-off recoveries performed by them to determine the point at which there was no reasonable expectation of further recovery. Through recalculation of the write-off point using historical data, we tested the application of the Group's write-off policy. We excluded post write-off recoveries from expected cash flows for purposes of calculating the ECL.

*Based on the results of the following procedures we accepted the forward looking information and macro economic variables included by management in their calculation of the ECL:*

- We compared 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 assumed, to our own actuarial analysis and independent market data; and
- We assessed the reasonableness of the economic stresses used by management in estimating the impact of COVID-19 on forward looking information by considering available GDP projections at the reporting date. In addition, we assessed the high, middle and low scenarios based on various GDP projections as part of our sensitivity analysis and noted that no material adjustments were required to the ECL as a result of these assumed stresses.

# Independent auditor's report continued

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Valuation of the right-of-use assets and lease liabilities recognised on adoption of IFRS 16, Leases** | |
| Refer to the accounting policies note 1.3 (Change in accounting policies) and note 17 (Leases) to the consolidated financial statements.<br><br>IFRS 16, 'Leases' (IFRS 16) became effective in the current accounting period. The Group adopted IFRS 16 with effect from 1 April 2019 and 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.<br><br>The adoption of IFRS 16 was performed based on a number of key estimates and judgements, which primarily included determination of the appropriate discount rates (incremental borrowing rates), the lease term for each lease, and inputs and assumptions used in calculating the recoverable amount of the right-of-use asset. The Group's lease contracts may include extension options which are included in the lease term if it is reasonably certain that the Group will exercise the extension option. The Group has a high volume of leases, some of which have been in place for a number of years.<br><br>We considered the adoption of IFRS 16 to be a matter of most significance to our current year audit due to estimation and judgement applied in the transition, the high volume of leases and the possible risk of the lease data used in the transition calculation being incomplete or inaccurate. | We performed the following audit procedures:<br><br>• Through discussions with management, we obtained an understanding of the key judgements and assumptions used by management in the implementation of IFRS 16;<br>• Utilising our actuarial expertise we determined a range of acceptable discount rates using independently sourced base rates for each currency at the transition date and during the year, which are usually linked to market rates, and by adding a historically adjusted credit spread specific to the lessee. Additional adjustments were made to reflect a secured borrowing rate and to cater for the nature of the asset being leased and the lease term. We compared management's discount rates used to our range of discount rates determined and found that management's rates fell within our range of rates;<br>• For a sample of leases, we tested the accuracy of the underlying lease data by agreeing the leases to original contracts or other underlying information. No material differences were noted;<br>• For a sample of leases, we evaluated the lease terms, including the renewal periods, where appropriate, by inspecting the underlying contracts and assessing management's judgements for the lease periods applied in the lease calculation, to consider whether they are accurate and complete. We noted no aspects requiring further consideration;<br>• We tested the completeness of the lease data by reconciling the data available in the Group's prior year operating lease commitments schedule as well as the lease expenses recognised in the current year, to the lease data underpinning the IFRS 16 calculations. We further inspected significant service contracts previously not considered to be leases, and noted that these contracts did not fall within the scope of IFRS 16;<br>• We recalculated the right-of-use asset and lease liability calculations for a sample of leases and tested the mathematical accuracy of the calculations. We compared our results to that of management, noting no material exceptions; and<br>• We tested management's impairment calculation of the right-of-use asset on adoption by consideration of the value in use calculations determined by management for all stores, which represent the lowest cash generating unit to which the right-of-use asset belongs. Utilising our valuation expertise we further tested the reasonableness of the discount rate used in the value in use calculations, by calculating a range of independent discount rates based on relevant market data on transition date and as at year end. We compared management's discount rate used to our range of discount rates determined and found that management's rates fell within ours. |

# Independent auditor's report continued

## Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Lewis Group Ltd Annual Financial Statements for the year ended 31 March 2020", 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 document titled "Lewis Group Ltd Integrated Annual Report 2020", which is expected to be made available to us after that date. The other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- 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.

# Independent auditor's report continued

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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 29 years.

PricewaterhouseCoopers Inc

**PricewaterhouseCoopers Inc.**

**Director: MC Hamman**
Registered Auditor

Cape Town
25 August 2020

# Audit committee report

for the year ended 31 March 2020

The Audit Committee ("the committee") has pleasure in submitting its report for the year ended 31 March 2020 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 recommendations of the King IV Report on Corporate Governance. 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 overseeing:
  - 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 tabled at the meetings of the Lewis Group Audit Committee.

## Membership

The committee consists of three independent non-executive directors:

D.J. Westcott (chairman)

D. Motsepe

T. Njikizana

During the year the following changes to the membership of the committee took place:

Hilton Saven and Alan Smart did not avail themselves for membership of the committee at the AGM.

Tapiwa Njikizana was appointed as a member of the audit committee at the AGM.

Daphne Motsepe was appointed as a member of the committee on 18 November 2019.

Biographical details of the committee members are provided in Appendix A.

The chief executive officer, chief financial officer, other relevant members of management 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.

# Audit committee report continued

for the year ended 31 March 2020

## Committee activities

The committee met three times during the year under review. The number of meetings held during the year was affected by the national lockdown declared in terms of the Disaster Management Act, 2002 by the government on 27 March 2020.

Attendance of the members has been set out on Appendix B.

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 16 Leases**

Lewis Group has adopted IFRS 16 for the first time for the year ended 31 March 2020. IFRS 16 removes the straight-line rental cost previously recognised in respect of operating leases under IAS 17 and replaces the cost with depreciation of a right-of-use asset and interest charged on outstanding lease liabilities. The previous distinction between finance and operating leases under IAS 17 has been removed and virtually all leases have been brought onto the balance sheet through a recognition of a right-of-use asset and a corresponding lease liability at the date of inception of the lease.

The group elected not to restate comparatives as permitted by the standard and rather to use the modified retrospective approach. The major impacts were an adjustment to opening retained earnings of R92.8 million, recognition of a right-of-use asset of R726.2 million and lease liabilities of R856.1 million (for full details, refer note 1.3 to annual financial statements). The adoption of IFRS 16 and the use of the modified retrospective approach was first reported in the interim results for the 6 months ended 30 September 2019.

The impact on the income statement for the year ended 31 March 2020 was a reduction in occupancy costs of R327.7 million, an increase in depreciation and impairment of R298.4 million, an increase in finance costs of R75.1 million and final reduction in attributable profit of R33.6 million (refer note 1.3 to the annual financial statements).

The audit committee considered the adoption of IFRS 16 at its audit committee meeting on 18 November 2019 in respect of the interim results and again for the full year results at its committee meeting on 19 August 2020. At both meetings, the committee had complete access to the auditors for their input and advice on the adoption of IFRS 16.

As part of their external audit, our independent auditors, PricewaterhouseCoopers ("PwC"), reperformed all the IFRS 16 related models prepared by management and considered the assumptions, methodologies and judgments adopted in these models.

# Audit committee report continued

for the year ended 31 March 2020

## 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 will be materially accurate, complete, reliable and consistent with the annual financial statements.

The committee recommended the integrated report for the year ended 31 March 2020 for review by the board and will be approved prior to its issue on 15 September 2020.

## External auditors

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

- Reviewed the independence of PwC, 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 2020 financial year. The fees paid to the auditors are disclosed in note 23.4 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

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

- 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.
- Approved the appointment of the chief internal audit executive.
- 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 2020

## 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 it 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.

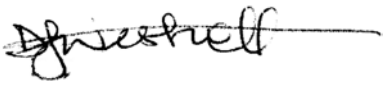
## Independence of external auditors

The committee is satisfied that PwC is 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.

The committee confirms it has functioned in accordance with its terms of reference for the 2020 financial year.



**D Westcott**
Chairman, Audit Committee

19 August 2020

# Directors' report

for the year ended 31 March 2020

## Nature of business

Lewis Group Limited is a holding company listed on the JSE, operating through two main subsidiaries, Lewis Stores Proprietary Limited and Monarch Insurance Company Limited ("the group").

The group offers a selected range of furniture and appliances through 485 Lewis, 141 Best Home and Electric and 127 Beares stores. Sales are mainly on credit. UFO is a cash furniture retailer with a retail footprint of 41 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 125 stores.

The nature of the business of the subsidiaries is set out in note 22.

## 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 110.

## Segmental analysis

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

## Share capital

During the financial year, 3 310 986 shares (2019: 3 224 858 shares) were repurchased in terms of section 48 of the Companies Act.

Refer to note 13.4 for more detail. The number of shares in issue at the end of the financial year is 76 899 090 (2019: 80 210 076).

The company has requested the JSE to delist 2 313 135 shares to reflect the shares in issue as 76 899 090 shares in their records.

## Treasury shares

The Lewis Employee Incentive Scheme Trust effectively holds 26 437 shares (2019: 15 842 shares), all of which will be utilised to cover share awards granted to executives.

# Directors' report continued

for the year ended 31 March 2020

## Dividends

The following dividends have been declared or proposed for the financial year ended 31 March 2020:

| | Dividend Per share | Date Declared | Date Payable |
|---|---|---|---|
| Interim – declared | **120 cents** | **20 November 2019** | **27 January 2020** |
| Final – proposed | **65 cents** | **25 August 2020** | **21 September 2020** |
| For the year | **185 cents** | | |

Notice is hereby given that a final gross cash dividend of 65 cents per share in respect of the year ended 31 March 2020 has been declared payable to holders of ordinary shares. The number of shares in issue as of the date of declaration is 79 212 225. 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 65 cents and the dividend tax payable is 13 cents for shareholders who are not exempt. The net dividend for shareholders who are not exempt will therefore be 52.00000 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 | 15 September 2020 |
| Date trading commences *"ex"* dividend | 16 September 2020 |
| Record date | 18 September 2020 |
| Date of payment | 21 September 2020 |

Share certificates may not be dematerialised or rematerialised between 16 September 2020 and 18 September 2020, both days inclusive.

## Directors

The directors as at 31 March 2020 are as follows:

- Mr Hilton Saven
- Prof. Fatima Abrahams
- Mr Jacques Bestbier
- Mrs Adheera Bodasing
- Mr Johan Enslin
- Mrs Daphne Motsepe
- Mr Tapiwa Njikizana (appointed 19 August 2019)
- Mr Alan Smart (retired 02 April 2020)
- Mr Duncan Westcott

## Company secretary

Ms. INT Makomba remained the company secretary throughout the financial year. The address of the company secretary is that of registered offices as stated on page 1.

# Directors' report continued

for the year ended 31 March 2020

## Directors' interests

At 31 March 2020, the directors' beneficial direct and indirect interest in the company's issued shares were as follows:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | **Direct** | **Indirect** | Direct | Indirect |
| H. Saven | | **6 440** | | 6 440 |
| J. Bestbier | **1 148** | **65 315** | 1 148 | 26 674 |
| J. Enslin | **206 038** | **129 240** | 176 038 | 65 541 |
| A.J. Smart | **319 070** | | 319 070 | |
| | **526 256** | **200 995** | 496 256 | 98 655 |

The change in the above directors' interests between the end of the financial year and date of approval of annual financial statements was due to the retirement of A.J. Smart on 2 April 2020.

Full details of the terms and conditions in relation to these share awards are set out in note 14.2 to the annual 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 material related party transactions in terms of the JSE Limited Listing Requirements took place between the group and its directors or their associates, other than remuneration for services rendered to the company as set out in note 14.2 to the annual financial statements.

## Subsidiary companies

Details of the company's subsidiaries are set out in note 22.

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

| | **2020 Rm** | 2019 Rm |
|---|---|---|
| Profit | **206.3** | 325.1 |
| Losses | **(23.9)** | (15.6) |

## Borrowing powers

Borrowings were R922.1 million at 31 March 2020 (2019: –). Borrowings are subject to the treasury policy adopted by the board of directors. In terms of the memorandum of incorporation, the group has unlimited borrowing powers.

# Lewis Group Limited:
# Consolidated income statement

for the year ended 31 March 2020

| | | Notes | 2020 Rm | 2019 Rm |
|---|---|---|---|---|
| **Revenue** | | 9 | **6 453.3** | 6 137.2 |
| Retail revenue | | | **4 475.3** | 4 242.3 |
| Merchandise sales | | | **3 685.5** | 3 519.9 |
| Ancillary services | | | **789.8** | 722.4 |
| Insurance revenue | | | **666.1** | 647.2 |
| Effective interest income | | | **1 311.9** | 1 247.7 |
| **Cost of merchandise sales** | | 11 | **(2 173.5)** | (2 069.3) |
| **Operating costs** | | | **(4 026.1)** | (3 624.9) |
| Debtor costs | | 4.2 | **(1 010.1)** | (733.1) |
| Employment costs | | 14.1 | **(1 214.4)** | (1 149.5) |
| Occupancy costs | | | **(144.2)** | (444.8) |
| Administration and IT | | | **(359.7)** | (348.3) |
| Transport and travel | | | **(273.2)** | (241.7) |
| Marketing | | | **(298.7)** | (298.3) |
| Depreciation, amortisation and impairment | | 16 | **(375.5)** | (78.6) |
| Other operating costs | | | **(350.3)** | (330.6) |
| **Operating profit before investment income** | | | **253.7** | 443.0 |
| Investment income | | 5.2 | **53.6** | 50.3 |
| **Profit before net finance costs** | | | **307.3** | 493.3 |
| **Net finance costs** | | | **(34.5)** | (29.5) |
| Interest paid | | 6.2 | **(98.0)** | (69.8) |
| Interest received | | 6.2 | **34.2** | 23.0 |
| Forward exchange contracts | | 6.2 | **29.3** | 17.3 |
| **Profit before taxation** | | | **272.8** | 463.8 |
| Taxation | | 15 | **(90.4)** | (154.3) |
| **Net profit attributable to ordinary shareholders** | | | **182.4** | 309.5 |
| Earnings per share | (cents) | 13.1 | **232.1** | 377.5 |
| Diluted earnings per share | (cents) | 13.1 | **225.4** | 368.7 |

# Lewis Group Limited:
# Consolidated statement of comprehensive income

for the year ended 31 March 2020

| | Note | 2020 Rm | 2019 Rm |
|---|---|---|---|
| Net profit for the year | | **182.4** | 309.5 |
| Items that may be subsequently reclassified to income statement: | | | |
| Movement in other reserves | | **(3.4)** | (10.1) |
| Fair value adjustments | | **(35.7)** | (15.3) |
| Changes in the fair value of debt instruments at fair value through other comprehensive income – FVOCI debt investments | | **(49.5)** | (21.3) |
| Tax effect | | **13.8** | 6.0 |
| Disposal of FVOCI debt investments | | **1.0** | 0.2 |
| Disposal | | **1.3** | 0.3 |
| Tax effect | | **(0.3)** | (0.1) |
| Foreign currency translation reserve | | **31.3** | 5.0 |
| Items that may not be subsequently reclassified to income statement: | | | |
| Retirement benefit remeasurements | | **37.3** | (4.1) |
| Remeasurements of the retirement asset and liabilities | 14.5.2 | **51.1** | (5.7) |
| Tax effect | | **(13.8)** | 1.6 |
| Other comprehensive income | | **33.9** | (14.2) |
| **Total comprehensive income for the year attributable to ordinary shareholders** | | **216.3** | 295.3 |

# Lewis Group Limited:
# Consolidated balance sheet

as at 31 March 2020

| | Notes | 2020 Rm | 2019 Rm |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 18 | **324.4** | 298.9 |
| Right-of-use assets | 17.2 | **693.7** | – |
| Intangible assets | 19 | **120.6** | 122.3 |
| Goodwill | 20 | **187.6** | 187.6 |
| Deferred taxation | 15 | **166.1** | 195.4 |
| Retirement benefit asset | 14.5 | **106.8** | 79.0 |
| Financial assets – insurance investments | 5.1 | **228.0** | 276.1 |
| | | **1 827.2** | 1 159.3 |
| **Current assets** | | | |
| Inventories | 11 | **740.7** | 665.8 |
| Trade and other receivables | 4.1 | **3 326.1** | 3 315.6 |
| Taxation | 15 | **54.9** | 102.9 |
| Financial assets – insurance investments | 5.1 | **245.9** | 340.7 |
| Cash-on-hand and deposits | 6.1 | **1 193.4** | 204.7 |
| | | **5 561.0** | 4 629.7 |
| **Total assets** | | **7 388.2** | 5 789.0 |
| **Equity and liabilities** | | | |
| **Capital and reserves** | | | |
| Share capital and premium | 13.4 | **0.9** | 0.9 |
| Treasury shares | 13.4 | **(1.0)** | (0.5) |
| Other reserves | 13.6 | **52.3** | 48.4 |
| Retained earnings | 13.7 | **4 657.3** | 4 827.3 |
| | | **4 709.5** | 4 876.1 |
| **Non-current liabilities** | | | |
| Lease liabilities | 17.1 | **611.1** | – |
| Deferred taxation | 15 | **23.3** | 43.2 |
| Retirement benefit liability | 14.5 | **70.7** | 87.2 |
| | | **705.1** | 130.4 |
| **Current liabilities** | | | |
| Trade and other payables | 7 | **547.9** | 521.8 |
| Payments in advance | 8 | **150.1** | 158.0 |
| Insurance liabilities | 5.3 | **104.8** | 102.7 |
| Short-term interest-bearing borrowings | 6.1 | **922.1** | – |
| Lease liabilities | 17.1 | **226.8** | – |
| Taxation | 15 | **21.9** | – |
| | | **1 973.6** | 782.5 |
| **Total equity and liabilities** | | **7 388.2** | 5 789.0 |

# Lewis Group Limited:
# Consolidated statement of changes in equity

for the year ended 31 March 2020

| | Notes | 2020 Rm | 2019 Rm |
|---|---|---|---|
| **Share capital and premium** | 13.4 | | |
| Opening balance | | **0.9** | 425.0 |
| Cost of own shares acquired | | **(101.7)** | (99.0) |
| Treasury shares cancelled | | **–** | (477.7) |
| Transfer of cost of cancelled shares | | **101.7** | 152.6 |
| | | **0.9** | 0.9 |
| **Treasury shares** | 13.4 | | |
| Opening balance | | **(0.5)** | (480.2) |
| Share awards to employees | | **20.5** | 8.1 |
| Cost of own shares acquired | | **(21.0)** | (6.1) |
| Treasury shares cancelled | | **–** | 477.7 |
| | | **(1.0)** | (0.5) |
| **Other reserves** | 13.6 | | |
| Opening balance | | **48.4** | 42.6 |
| Other comprehensive income for the year: | | | |
| Changes in fair value of FVOCI debt investments | | **(35.7)** | (15.3) |
| Disposal of FVOCI debt investments | | **1.0** | 0.2 |
| Foreign currency translation reserve | | **31.3** | 5.0 |
| Equity-settled share-based payments | | **29.0** | 36.2 |
| Transfer of share-based payments reserve to retained earnings on vesting | | **(20.9)** | (20.3) |
| Transfer of other reserve to retained earnings | | **(0.8)** | – |
| | | **52.3** | 48.4 |
| **Retained earnings** | 13.7 | | |
| Opening balance as previously reported | | **4 827.3** | 5 461.1 |
| IFRS 9 Transitional adjustments | 25 | **–** | (604.8) |
| IFRS 15 Transitional adjustments | 25 | **–** | (26.0) |
| IFRS 16 Transitional adjustments | 1.3 | **(92.8)** | – |
| Opening balance (Restated) | | **4 734.5** | 4 830.3 |
| Net profit attributable to ordinary shareholders | | **182.4** | 309.5 |
| Distribution to shareholders | 13.2 | **(196.4)** | (168.0) |
| Transfer of cost of cancelled shares | | **(101.7)** | (152.6) |
| Transfer of share-based payments reserve to retained earnings on vesting | | **20.9** | 20.3 |
| Retirement benefit remeasurements | | **37.3** | (4.1) |
| Share awards to employees | | **(20.5)** | (8.1) |
| Transfer of other reserve to retained earnings | | **0.8** | – |
| | | **4 657.3** | 4 827.3 |
| **Balance as at 31 March** | | **4 709.5** | 4 876.1 |

# Lewis Group Limited:
# Consolidated cash flow statement

for the year ended 31 March 2020

| | Notes | 2020 Rm | 2019 Rm |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Cash flow from trading | 12.1 | **892.1** | 501.8 |
| Changes in working capital | 12.2 | **(255.8)** | 150.7 |
| Cash flow from operations | | **636.3** | 652.5 |
| Interest received other than from trade receivables | | **86.5** | 73.0 |
| Interest paid | 6.2 | **(98.0)** | (69.8) |
| Taxation refunded/(paid) | 15 | **25.2** | (128.1) |
| | | **650.0** | 527.6 |
| **Cash utilised in investing activities** | | | |
| Net disposals/(purchases) of insurance business investments | | **96.0** | (31.1) |
| Purchases of insurance investments | | **(76.0)** | (293.3) |
| Disposals of insurance investments | | **172.0** | 262.2 |
| Acquisition of fixed assets | 18, 19 | **(108.1)** | (88.6) |
| Purchase of business | | **–** | (16.5) |
| Proceeds on disposal of fixed assets | | **4.0** | 9.6 |
| | | **(8.1)** | (126.6) |
| **Cash flow from financing activities** | | | |
| Dividends paid | 13.2 | **(196.4)** | (168.0) |
| Payment of principal portion of lease liabilities | 17.1 | **(256.2)** | – |
| Advances/(repayments) of borrowings | 6.1 | **922.1** | (502.8) |
| Purchase of own shares | | **(122.7)** | (105.1) |
| | | **346.8** | (775.9) |
| **Net increase/(decrease) in cash and cash equivalents** | | **988.7** | (374.9) |
| Cash and cash equivalents at the beginning of the year | | **204.7** | 579.6 |
| **Cash and cash equivalents at the end of the year** | | **1 193.4** | 204.7 |

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 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 following new or revised IFRS and interpretations became effective for the first time for 31 March 2020 year end and have therefore been applied:

- IFRS 16 – Leases (Refer Note 1.3); and
- IFRIC 23 – Uncertainty over Income Tax Treatments.

Except for IFRS 16, none of the other standards or amendments have had a material impact to the results and financial position of the group.

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. The group presents its notes on the following basis:

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

## 1.2 Significant accounting estimates and judgements

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

The following significant judgements have been identified:

| | Note reference |
|---|---|
| Impairment of receivables | 4.1 |
| Debtor costs | 4.2 |
| Payments in advance | 8 |
| Retail revenue | 9.2 |
| Share–based payments | 14.3 |
| Retirement benefits | 14.5 |
| Normal and deferred taxation | 15 |
| Leases | 17 |
| Useful lives and residual values of fixed assets | 18 |
| Goodwill | 20 |

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 1.3 Changes in accounting policies

### 1.3.1 Accounting for IFRS 16 – Leases

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019 and replaces 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 interest charged on outstanding lease liabilities and depreciation on right–of–use ("ROU") assets.

A lease liability and corresponding ROU asset is recognised at the commencement date of each qualifying lease.

On initial recognition, the lease liability is measured at a value equal to the present value of future lease payments over the lease term, discounted at the interest rate implicit in the lease. If that rate cannot be readily determined the relevant incremental borrowing rate is used. Future lease payments comprise fixed lease payments, 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. Future lease payments include lease extension options where the option to exercise is reasonably certain.

The discount rate used to calculate the lease liability is the group's relevant incremental borrowing rate as the interest rate implicit in the lease is not readily determinable. The rate is 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 ROU asset is initially measured at cost, comprising the initial lease liability, prepaid lease payments, initial direct costs and costs to dismantle or restore, less any lease incentives received. Subsequent to initial recognition, the ROU asset is depreciated on a straight–line basis over the shorter of the lease term and its estimated useful life. ROU assets are tested for impairment where there are indicators that the ROU asset or the Cash–Generating Unit ("CGU") to which the ROU asset belongs may be impaired.

The group leases various properties such as stores, storerooms, warehouses and offices. Lease agreements are generally entered into for fixed periods of one to five years and may include further extension options. The lease term includes any non–cancellable periods and reasonably certain extension option periods. At the date of initial application, the group's portfolio of qualifying leases had an average lease term of four years.

### 1.3.2 Adoption of IFRS 16 – Leases

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 present value of the future lease payments discounted over the lease term using the group's relevant incremental borrowing rate ("IBR") at the date of initial application. The group's portfolio of qualifying leases has a weighted average borrowing rate of 9.04% on date of initial application.

The associated ROU asset was recognised based on the carrying amount as if the standard had always been applied, apart from the practical expedients noted below.

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:

- Application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Exclude initial direct costs from the measurement of the ROU asset;
- Election not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*; and
- Use of hindsight in determining the lease term if the contract contains options to extend the lease.

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 1.3 Changes in accounting policies continued

### 1.3.2 Adoption of IFRS 16 – Leases continued

#### Adoption effect on the financial statements

**Impact on the income statement**

| | | Post IFRS 16 2020 Rm | IFRS 16 Adjustments Rm | Pre IFRS 16 2020 Rm | 2019 Rm |
|---|---|---|---|---|---|
| Revenue | | **6 453.3** | **–** | **6 453.3** | 6 137.2 |
| Cost of merchandise sales | | **(2 173.5)** | **–** | **(2 173.5)** | (2 069.3) |
| Operating costs | | **(4 026.1)** | **29.3** | **(4 055.4)** | (3 624.9) |
| Occupancy costs | | **(144.2)** | **327.7** | **(471.9)** | (444.8) |
| Depreciation, amortisation and impairment | | **(375.5)** | **(298.4)** | **(77.1)** | (78.6) |
| Other operating costs[1] | | **(3 506.4)** | **–** | **(3 506.4)** | (3 101.5) |
| Operating profit before investment income | | **253.7** | **29.3** | **224.4** | 443.0 |
| Investment income | | **53.6** | **–** | **53.6** | 50.3 |
| Profit before net finance costs | | **307.3** | **29.3** | **278.0** | 493.3 |
| Net finance costs | | **(34.5)** | **(75.1)** | **40.6** | (29.5) |
| Interest paid | | **(98.0)** | **(75.1)** | **(22.9)** | (69.8) |
| Interest received | | **34.2** | **–** | **34.2** | 23.0 |
| Forward exchange contracts | | **29.3** | **–** | **29.3** | 17.3 |
| Profit before taxation | | **272.8** | **(45.8)** | **318.6** | 463.8 |
| Taxation | | **(90.4)** | **12.2** | **(102.6)** | (154.3) |
| **Net profit attributable to ordinary shareholders** | | **182.4** | **(33.6)** | **216.0** | 309.5 |
| Earnings per share | (cents) | **232.1** | **(42.7)** | **274.7** | 377.5 |
| Diluted earnings per share | (cents) | **225.4** | **(41.5)** | **266.8** | 368.7 |

[1] *Comprises debtor costs, employment costs, administration and IT, transport and travel, marketing and other operating costs. Refer page 16 for full income statement for the year ended 31 March 2020.*

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 1.3.2 Adoption of IFRS 16 – Leases continued

**Impact on the balance sheet**

| | | 2020 Rm | On transition 1 April 2019 Rm |
|---|---|---|---|
| **Total assets** | | | |
| Increase in right-of-use assets | | **693.7** | 726.2 |
| Increase in deferred tax assets | | **48.8** | 36.6 |
| Increase/(decrease) in lease premiums[1] | | **7.0** | (6.5) |
| Decrease in rental prepayments[1] | | **(0.9)** | (23.2) |
| | | **748.6** | 733.1 |
| **Total equity and liabilities** | | | |
| Decrease in opening retained earnings | | **(92.8)** | (92.8) |
| Decrease in retained earnings | | **(33.6)** | – |
| Increase in lease liabilities | | **837.9** | 856.1 |
| Non-current | | **611.1** | 642.2 |
| Current | | **226.8** | 213.9 |
| Decrease in lease averaging provision[2] | | **–** | (30.2) |
| Increase in restoration provision[2] | | **37.1** | – |
| | | **748.6** | 733.1 |
| **Impact on net asset value** | | | |
| Decrease in opening retained earnings | | **(92.8)** | (92.8) |
| Decrease in net profit attributable to ordinary shareholders | | **(33.6)** | – |
| | | **(126.4)** | (92.8) |
| **Impact on net asset value per share** | | | |
| Decrease in net asset value per share | (cents) | **(164.4)** | (115.7) |

[1] *Included in the trade and other receivables note.*

[2] *Included in the trade and other payables note.*

**Impact on the cash flow statement**

| | 2020 Rm |
|---|---|
| Increase in cash flow from trading | **327.7** |
| Increase in cash flow from operations | **327.7** |
| Increase in interest paid – lease liabilities | **(71.5)** |
| **Effect on cash flows from operating activities** | **256.2** |
| Increase in principal portion of lease liabilities | **(256.2)** |
| **Effect on cash flows from financing activities** | **(256.2)** |
| **Net effect on cash and cash equivalents** | **–** |

# Lewis Group Limited: Consolidated financial statements

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## 1.3.2 Adoption of IFRS 16 – Leases continued

**Impact on the reportable segments**

IFRS 16 adjustments by reportable segments are as follows:

| | | 2020 | | |
|---|---|---|---|---|
| | | Traditional Rm | Cash Rm | Group Rm |
| Decrease in operating costs | | **22.5** | **6.8** | **29.3** |
| Decrease in occupancy costs | | **273.0** | **54.7** | **327.7** |
| Increase in depreciation and impairment | | **(250.5)** | **(47.9)** | **(298.4)** |
| Increase in segment operating profit before investment income | | **22.5** | **6.8** | **29.3** |
| Increase in segment operating margin | (%) | **0.4** | **1.3** | **0.5** |
| Increase in interest paid – lease liabilities | | **(58.7)** | **(12.8)** | **(71.5)** |
| Increase in interest paid – other | | **(3.2)** | **(0.4)** | **(3.6)** |
| Decrease in profit before taxation | | **(39.4)** | **(6.4)** | **(45.8)** |

**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 | | | |
|---|---|---|---|---|
| | 0 – 12 months Rm | 1–5 years Rm | >5 years Rm | Total Rm |
| Operating lease commitments (on cash basis) previously disclosed 31 March 2019 | 258.3 | 427.9 | – | 686.2 |
| Less: Short-term and low value leases recognised as an expense | (4.0) | – | – | (4.0) |
| Add: Adjustments as a result of the inclusion of extension options[1] | 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 |

[1] *IFRS 16 introduced additional guidance on determining reasonable certainty when assessing lease terms. On transition date, the group utilised the additional guidance relating to reasonable certainty and applied the hindsight practical expedient to include the extension options of leases entered into before 6 April 2019. The application of the new guidance and practical expedient resulted in an increase of R401.4 million in undiscounted operating lease commitments.*

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for the year ended 31 March 2020

## 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 delegated risk matters to a group risk committee comprising six independent non-executive directors, one non-executive director 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

for the year ended 31 March 2020

## 2. Risk management continued

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

| | Note reference |
|---|---|
| **Credit risk** | |
| Trade receivables | 4.1 |
| Insurance investments | 5.1 |
| Cash | 6.1 |
| **Price risk** | |
| Insurance investments | 5.1 |
| Borrowings | 6.1 |
| **Interest rate risk** | |
| Trade receivables | 4.1 |
| Insurance investments | 5.1 |
| Net finance costs | 6.2 |
| Lease liabilities | 17.1 |
| **Currency risk** | |
| Net finance costs | 6.2 |
| **Liquidity risk** | |
| Borrowings | 6.1 |
| Lease liabilities | 17.1 |
| **Insurance risk** | |
| Insurance liabilities | 5.3 |
| **Actuarial risk** | |
| Defined benefit retirement plans | 14.5.4 |
| Post-retirement healthcare benefits | 14.5.5 |

## 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 |
| Borrowings | 6.1 |
| Trade payables | 7 |
| Lease liabilities | 17.1 |

### Accounting policies

*(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.

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")

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 3. Financial instruments continued

### Accounting policies continued

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. Interest income from these financial assets is included in interest received and calculated 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 do not meet the SPPI criteria (see below).

*(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.

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.

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 3. Financial instruments continued

### Accounting policies continued

The impairment gains or losses are presented as follows:

- for amortised cost assets, through the income statement; and
- 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, with 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. Although the derivatives have not been designated in a hedge relationship, they act as an economic hedge and will substantially offset the underlying transactions when they occur. 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.

*(viii)* ***Derecognition***
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.

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 3. Financial instruments continued

### i) Categories

| | Amortised cost Rm | FVOCI debt Rm | Total Rm |
|---|---|---|---|
| **2020** | | | |
| **Assets** | | | |
| Insurance investments | **–** | **473.9** | **473.9** |
| Trade and other receivables | **3 326.1** | **–** | **3 326.1** |
| Cash-on-hand and deposits | **1 193.4** | **–** | **1 193.4** |
| **Liabilities** | | | |
| Borrowings | **922.1** | **–** | **922.1** |
| Lease liabilities | **837.9** | **–** | **837.9** |
| Trade payables | **196.5** | **–** | **196.5** |
| 2019 | | | |
| Assets | | | |
| 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 |
| Liabilities | | | |
| Borrowings | – | – | – |
| Trade payables | 160.9 | – | 160.9 |

### ii) Maturity profile of financial assets

The maturity profiles of financial assets are as follows:

| | 0 – 12 months Rm | 1 – 5 years Rm | >5 years Rm | Total Rm |
|---|---|---|---|---|
| **2020** | | | | |
| Insurance investments | **245.9** | **–** | **228.0** | **473.9** |
| Trade and other receivables | **2 153.9** | **1 172.2** | **–** | **3 326.1** |
| Cash-on-hand and deposits | **1 193.4** | **–** | **–** | **1 193.4** |
| | **3 593.2** | **1 172.2** | **228.0** | **4 993.4** |
| 2019 | | | | |
| 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 |
| | 2 669.2 | 1 191.8 | 276.1 | 4 137.1 |

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 3. Financial instruments continued

### iii) Maturity profile of financial liabilities

The maturity profiles of undiscounted financial liabilities are as follows:

| | 0 – 12 months Rm | 1–5 years Rm | >5 years Rm | Total Rm |
|---|---|---|---|---|
| **2020** | | | | |
| Borrowings | **(922.1)** | **–** | **–** | **(922.1)** |
| Interest on borrowings to maturity | **(69.1)** | **–** | **–** | **(69.1)** |
| Lease liabilities | **(226.8)** | **(510.0)** | **(101.1)** | **(837.9)** |
| Interest on lease liabilities | **(86.0)** | **(86.6)** | **(11.9)** | **(184.5)** |
| Trade payables | **(196.5)** | **–** | **–** | **(196.5)** |
| | **(1 500.5)** | **(596.6)** | **(113.0)** | **(2 210.1)** |
| 2019 | | | | |
| Borrowings | – | – | – | – |
| Interest on borrowings to maturity | – | – | – | – |
| Trade payables | (160.9) | – | – | (160.9) |
| | (160.9) | – | – | (160.9) |

### 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 rate | Carrying value Rm |
|---|---|---|---|---|
| **2020** | | | | |
| **Assets** | | | | |
| Gross instalment sale receivables | **Up to 3 years** | **22.9** | **Fixed** | **5 746.5** |
| Fixed income securities | **Varies** | **8.1** | **Fixed** | **228.0** |
| Money market investments | **Up to 12 months** | **7.7** | **Floating** | **245.9** |
| **Liabilities** | | | | |
| Short-term interest-bearing borrowings | **Varies (refer note 6)** | **7.6** | **Floating** | **922.1** |
| Lease liabilities | **Varies** | **8.9** | **Fixed** | **837.9** |
| 2019 | | | | |
| Assets | | | | |
| 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 |
| Liabilities | | | | |
| Short-term interest-bearing borrowings | Varies (refer note 6) | 9.1 | Floating | – |

### v) Interest received and paid on financial instruments

| | 2020 Rm | 2019 Rm |
|---|---|---|
| **Interest received on financial assets** | | |
| Insurance investments | **52.3** | 50.0 |
| Trade and other receivables | **1 414.3** | 1 358.1 |
| Cash-on-hand and deposits | **12.4** | 23.0 |
| | **1 479.0** | 1 431.1 |
| **Interest paid on financial liabilities** | | |
| Borrowings | **20.1** | 54.5 |
| Lease liabilities | **71.5** | – |
| | **91.6** | 54.5 |

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 4. Trade and other receivables and debtor costs

### 4.1 Trade and other receivables

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Trade receivables | **5 746.5** | 5 527.8 |
| Provision for impairment | **(2 534.0)** | (2 323.1) |
| Trade receivables (net) | **3 212.5** | 3 204.7 |
| Due within 12 months | **2 040.3** | 2 012.9 |
| Due after 12 months | **1 172.2** | 1 191.8 |
| Other receivables | **113.6** | 110.9 |
| **Total trade and other receivables** | **3 326.1** | 3 315.6 |
| Debtors' impairment provision as percentage of debtors at gross carrying value (%) | **44.1** | 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.

Other receivables consist of prepayments, VAT, foreign reinsurance receivables, forward exchange contracts (refer to note 6) and investment in insurance cell captive (refer to note 5).

### 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.

### Significant accounting estimates and judgements

*(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***

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.

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

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

### 4.1 Trade and other receivables continued

#### Significant accounting estimates and judgements continued

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.

**Economic overlay**
To account for the potential impact of COVID-19 on future customer account payment behaviour in the calculation of the expected credit losses, an expanded economic overlay model was used as the primary model, for the current financial year.

**Standard Economic Overlay Model**
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). This assessment of the key economic assumptions is done on an annual basis to identify the economic variables that have the highest degree of correlation with the non-performing category. This assessment for 2020 has resulted in a change in variables utilised in the standard model. The following economic variables were identified for the current and prior years:

| 2020 | 2019 |
|---|---|
| **CPI excluding food and housing**<br>**Gross Domestic Product ("GDP") Price Index**<br>**Private credit consumers** | Prime overdraft rate<br>Unemployment rate |

Base, upside and downside 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 downside scenario, 30% to the base scenario and 10% to the upside scenario for the 12 month forecast for both the current year and prior year using this model. The probabilities used for the standard model anticipates deterioration in the general business environment and is not calibrated towards disruptive events such as the COVID-19 pandemic.

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

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

### 4.1 Trade and other receivables continued

#### Significant accounting estimates and judgements continued

**Expanded Economic Overlay Model to account for COVID-19**

The impact of lockdown and regulations promulgated under the Disaster Management Act 2002 as a result of the COVID-19 pandemic on the economy and consumers will have an impact on the forward-looking economic overlay on the impairment provision for which the standard regression model does not cater.

The expanded model applies a regression analysis between payment behaviour and GDP growth. The payment behaviour is correlated to the GDP growth with a three-month lag. General expectation of GDP growth are used for each of the countries in which the group operates.

Base, upside and downside scenarios are created for GDP growth for each of the countries in which the group operates. The three scenarios project the forward-looking impact on the impairment provision. Management has assigned a probability of 15% to the upside scenario, 50% to the base scenario and 35% to the downside scenario. All the scenarios take into account the impact of the COVID-19 lockdown and regulations and have a five-year horizon in terms of GDP growth which takes into account the expected deterioration over the next calendar year as well as the subsequent recovery in the following four years.

The GDP growth is based on Bureau for Economic Research ("BER") forecasts for South Africa and International Monetary Fund ("IMF") forecasts for each of the other countries where the group trades. South Africa constitutes approximately 85% of the group's trading activity and its GDP growth forecast has a significant impact on the economic overlay calculated by this model. The GDP forecasts used for South Africa (i.e. BER forecasts) are as follows:

| | | Calendar Year | | | | |
|---|---|---|---|---|---|---|
| Scenario | | 2020 | 2021 | 2022 | 2023 | 2024 |
| Upside | (%) | **(6.6)** | **4.8** | **1.9** | **2.0** | **2.0** |
| Base | (%) | **(9.5)** | **3.1** | **1.4** | **1.5** | **1.6** |
| Downside | (%) | **(14.1)** | **(2.0)** | **2.4** | **1.1** | **1.2** |

| Impact of forward-looking information on ECL | 2020 Rm | 2019 Rm |
|---|---|---|
| Standard regression model | **105.0** | 125.7 |
| Expanded regression model to take account of COVID-19 lockdown and impact on economic recovery | **189.5** | – |
| Total economic overlay | **294.5** | 125.7 |

| | 2020 Rm | % change | 2019 Rm | % change |
|---|---|---|---|---|
| **Probability weighted impact of all three scenarios** | **294.5** | | 125.7 | |
| 100% downside scenario | **388.8** | **32** | 148.5 | 18 |
| 100% base scenario | **260.2** | **(12)** | 104.5 | (17) |
| 100% upside scenario | **188.1** | **(36)** | 52.0 | (59) |

# Lewis Group Limited: Consolidated financial statements

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

### 4.1 Trade and other receivables continued

#### Significant accounting estimates and judgements continued

*(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.

*(v)* ***Unpaid insurance***

Unearned and unpaid insurance receivables of R147 million (2019: R166 million) has been included in trade receivables. Impairment of R65 million (2019: R106 million) relating to insurance receivables has been included in the impairment provision for trade receivables. Insurance receivables and the impairment of insurance receivables are recognised and measured in terms of IFRS 4 Insurance Contracts.

#### 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.

There is a large, diverse and widespread customer base. Therefore, the group does not consider there to be any significant concentration of credit risk. There is no significant exposure to any specific industries affected by COVID-19.

#### 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.

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

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

### 4.1 Trade and other receivables continued

#### Credit granting continued

- **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.

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.

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

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

### 4.1 Trade and other 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: Consolidated financial statements

for the year ended 31 March 2020

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

### 4.1 Trade and other receivables continued

Debtor analysis 31 March 2020

| Customer grouping | Number of Customers Total | Gross carrying value R'000 | Impairment provision R'000 | Impairment provision % | Total arrears R'000 | Instalments in arrears 1 R'000 | 2 R'000 | 3 R'000 | >3 R'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Satisfactory paid** Customers who have paid 70% or more of amounts due over the contract period. | 420 399 | 3 397 212 | 728 839 | 21.5 | 615 331 | 203 768 | 127 077 | 89 041 | 195 445 |
| (%) | 70.5 | 59.1 | 28.8 | | | | | | |
| **Slow payers** Customers who have paid 55% to 70% of amounts due over the contract period. | 98 250 | 1 088 690 | 726 424 | 66.7 | 599 632 | 78 344 | 72 297 | 65 847 | 383 144 |
| (%) | 16.5 | 19.0 | 28.6 | | | | | | |
| **Non-performing accounts** Customers who have paid less than 55% of amounts due over the contract period. | 77 270 | 1 260 584 | 1 078 695 | 85.6 | 896 869 | 66 078 | 62 916 | 60 529 | 707 346 |
| (%) | 13.0 | 21.9 | 42.6 | | | | | | |
| **Gross debtor analysis** | 595 919 | 5 746 486 | 2 533 958 | 44.1 | 2 111 832 | 348 190 | 262 290 | 215 417 | 1 285 935 |

Credit impaired debtors as at 31 March 2020

| Credit impaired categories | Non-performing accounts R'000 | *In duplum* Satisfactory R'000 | *In duplum* Slow pay R'000 | Debt counselling Satisfactory R'000 | Debt counselling Slow pay R'000 | No payment in three consecutive months Satisfactory R'000 | No payment in three consecutive months Slow pay R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|---|
| Gross carrying value as at 31 March 2020 | 1 260 584 | 1 031 | 1 115 | 52 320 | 106 652 | 107 739 | 153 451 | 1 682 892 |
| Impairment provision | (1 078 695) | (345) | (805) | (13 327) | (72 681) | (29 367) | (107 514) | (1 302 734) |
| Amortised cost | 181 889 | 686 | 310 | 38 993 | 33 971 | 78 372 | 45 937 | 380 158 |

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

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

### 4.1 Trade and other 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 | Instalments in arrears 1 R'000 | 2 R'000 | 3 R'000 | >3 R'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Satisfactory paid** Customers who have paid 70% or more of amounts due over the contract period. | 418 355 | 3 282 938 | 593 578 | 18.1 | 534 435 | 156 625 | 105 396 | 76 314 | 196 100 |
| (%) | 71.4 | 59.4 | 25.6 | | | | | | |
| **Slow payers** Customers who have paid 55% to 70% of amounts due over the contract period. | 88 969 | 959 418 | 612 172 | 63.8 | 606 735 | 68 541 | 65 290 | 60 511 | 412 393 |
| (%) | 15.2 | 17.3 | 26.3 | | | | | | |
| **Non-performing accounts** Customers who have paid less than 55% of amounts due over the contract period. | 78 426 | 1 285 439 | 1 117 328 | 86.9 | 987 580 | 63 762 | 62 451 | 60 902 | 800 465 |
| (%) | 13.4 | 23.3 | 48.1 | | | | | | |
| **Gross debtor analysis** | 585 750 | 5 527 795 | 2 323 078 | 42.0 | 2 128 750 | 288 928 | 233 137 | 197 727 | 1 408 958 |

Credit impaired debtors as at 31 March 2019

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

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

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

### 4.1 Trade and other receivables continued

| Analysis of gross trade receivables | Not credit impaired Rm | Credit impaired Rm | Total Rm |
|---|---|---|---|
| **As at 31 March 2020** | | | |
| **Opening balance** | **3 964.2** | **1 563.6** | **5 527.8** |
| New accounts | **2 319.4** | **–** | **2 319.4** |
| Accounts settled | **(617.3)** | **(82.3)** | **(699.6)** |
| Receivables derecognised (Bad debts written off) | **–** | **(979.9)** | **(979.9)** |
| Change in value due to transactions[1] | **(622.8)** | **201.6** | **(421.2)** |
| Transfers: | | | |
| Cured (from "Credit impaired" to "Not credit impaired") | **85.3** | **(85.3)** | **–** |
| New credit impaired (from "Not credit impaired" to "Credit impaired") | **(1 065.3)** | **1 065.3** | **–** |
| **Closing balance** | **4 063.5** | **1 683.0** | **5 746.5** |
| As at 31 March 2019[2] | | | |
| **Opening balance** | 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) | – | (942.5) | (942.5) |
| Change in value due to transactions[1] | (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") | (998.7) | 998.7 | – |
| **Closing balance** | 3 964.2 | 1 563.6 | 5 527.8 |

| Analysis of impairment allowance | Not credit impaired Rm | Credit impaired Rm | Total Rm |
|---|---|---|---|
| **As at 31 March 2020** | | | |
| **Opening balance** | **1 072.4** | **1 250.7** | **2 323.1** |
| New accounts | **796.9** | **–** | **796.9** |
| Accounts settled | **(5.7)** | **(52.3)** | **(58.0)** |
| Receivables derecognised (Bad debts written off) | **–** | **(743.7)** | **(743.7)** |
| Change in value due to transactions[1] | **88.0** | **127.7** | **215.7** |
| Transfers: | | | |
| Cured (from "Credit impaired" to "Not credit impaired") | **57.9** | **(57.9)** | **–** |
| New credit impaired (from "Not credit impaired" to "Credit impaired") | **(777.6)** | **777.6** | **–** |
| **Closing balance** | **1 231.9** | **1 302.1** | **2 534.0** |
| **ECL coverage (%)** | **30.3** | **77.4** | **44.1** |
| As at 31 March 2019[2] | | | |
| **Opening balance** | 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) | – | (700.4) | (700.4) |
| Change in value due to transactions[1] | 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") | (628.2) | 628.2 | – |
| Closing balance | 1 072.4 | 1 250.7 | 2 323.1 |
| ECL coverage (%) | 27.1 | 80.0 | 42.0 |

[1] *This line includes movements relating to amounts charged to accounts and payments received where accounts have not yet been fully settled.*

[2] *Amounts per the gross trade receivables and impairment allowance reconciliations were reallocated for the comparative period. Amounts of R253.7 million in gross receivables and R141.5 million in the impairment allowances, both relating to bad debts written off in 2019, were reallocated from "receivables derecognised" to "transfers: new credit impaired" line items to be in line with the current year's methodology which takes into consideration the transitioning of accounts from not credit impaired to credit impaired throughout the year.*

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

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

### 4.1 Trade and other receivables continued

#### 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 22.9% (2019: 22.8%) and the average term of the sale is 32.8 months (2019: 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.

### 4.2 Debtor costs

| | | 2020 Rm | 2019 Rm |
|---|---|---|---|
| Bad debts | | **877.5** | 894.9 |
| Bad debts before adjustment for interest on credit impaired accounts | | **979.9** | 1 005.3 |
| Adjustment for interest on credit impaired accounts | | **(102.4)** | (110.4) |
| Bad debt recoveries | | **(78.3)** | (62.8) |
| Movement in debtors' impairment provision | | **210.9** | (99.0) |
| Closing balance | | **2 534.0** | 2 323.1 |
| Transition to IFRS 9 | | **–** | (802.6) |
| Opening balance | | **(2 323.1)** | (1 619.5) |
| Total debtor costs | | **1 010.1** | 733.1 |
| Debtor costs as a percentage of debtors at gross carrying value | (%) | **17.6** | 13.3 |

"Bad debts before adjustment for interest on credit impaired accounts" is the gross carrying amounts of the trade receivables written off. 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

### 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.

## Significant accounting estimates and judgements

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.

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 5. Insurance

### 5.1 Insurance investments

| | 2020 Rm | 2019 Rm |
|---|---|---|
| **Financial assets – insurance investments** | | |
| **Listed investments** | | |
| Fixed income securities – FVOCI debt investments | **228.0** | 276.1 |
| **Unlisted investments** | | |
| Money market – FVOCI debt investments | **245.9** | 340.7 |
| | **473.9** | 616.8 |
| Analysed as follows: | | |
| Non-current | **228.0** | 276.1 |
| Current | **245.9** | 340.7 |
| | **473.9** | 616.8 |
| **Movement for the year** | | |
| Beginning of the year | **616.8** | 606.4 |
| Additions to investments | **76.0** | 293.3 |
| Disposals of investments | **(170.7)** | (261.9) |
| Fair value adjustment | **(48.2)** | (21.0) |
| End of the year | **473.9** | 616.8 |

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

#### 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.

#### Significant accounting estimates and judgements

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 risk-free government bonds. 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 due to the probability of default being extremely low.

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

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 5. Insurance continued

### 5.1 Insurance investments continued

#### Credit risk

Fixed income securities are risk-free government bonds.

The following table provides information regarding the credit risk exposure of the government bonds:

| Name of investment | 2020 Credit rating | 2019 Credit rating | Maturity Profile | 2020 Rm | 2019 Rm |
|---|---|---|---|---|---|
| RSA 7.00% 280231 | **Ba1** | Baa3 | **7-12 years** | **90.8** | 106.7 |
| RSA 6.25% 310336 | **Ba1** | Baa3 | **12+ years** | **93.5** | 115.4 |
| RSA 6.5% 280241 | **Ba1** | Baa3 | **12+ years** | **43.7** | 54.0 |
| Total | | | | **228.0** | 276.1 |

The money market investments are invested with credit-worthy financial institutions.

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

| Financial institutions | 2020 Long-term | 2020 Short-term | 2019 Long-term | 2019 Short-term | 2020 Rm | 2019 Rm |
|---|---|---|---|---|---|---|
| FNB | **Ba1** | **NP** | Baa3 | P-3 | **45.3** | 83.3 |
| Absa | **Ba1** | **NP** | Baa3 | P-3 | **40.3** | 69.6 |
| Nedbank | **Ba1** | **NP** | Baa3 | P-3 | **50.6** | 69.6 |
| Standard Bank | **Ba1** | **NP** | Baa3 | P-3 | **45.3** | 70.3 |
| Investec | **Ba1** | **NP** | Baa3 | P-3 | **51.5** | 43.6 |
| Other | | | | | **12.9** | 4.3 |
| Total | | | | | **245.9** | 340.7 |

The long-term and short-term ratings above are foreign ratings. 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.

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

for the year ended 31 March 2020

## 5. Insurance continued

### 5.1 Insurance investments continued

**Price risk** 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:

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Modified duration of Monarch's fixed income portfolio | **7.5** | 7.8 |
| Modified duration of the JSE All Bond Index | **6.4** | 7.3 |
| **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 7.7% (2019: 8.4%). 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 | **0.9** | 1.1 |
| -50 basis points | **(0.9)** | (1.1) |
| The coupon rate on fixed income securities prevailing at year end was 8.1% (2019: 8.2%). 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 | **1.3** | 2.2 |
| -50 basis points | **(1.3)** | (2.2) |

**Liquidity risk**

Monarch manages liquidity requirements by matching the maturity of the assets invested to the corresponding insurance liabilities and the required solvency margin. The insurance liabilities and the required solvency margin are covered by fixed income securities and money market deposits. The maturity analysis of insurance investments are presented in note 3 and the maturity analysis of insurance liabilities are presented in note 5.4.

**Fair value hierarchy**

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

| | Level 2 Rm | Total Rm |
|---|---|---|
| **2020** | | |
| Insurance investments: | | |
| Fixed income securities – FVOCI debt investments | **228.0** | **228.0** |
| Money market floating rate notes – FVOCI debt investments | **245.9** | **245.9** |
| | **473.9** | **473.9** |
| 2019 | | |
| Insurance investments: | | |
| Fixed income securities – FVOCI debt investments | **276.1** | **276.1** |
| Money market floating rate notes – FVOCI debt investments | **340.7** | **340.7** |
| | **616.8** | **616.8** |

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 5. Insurance continued

### 5.1 Insurance investments continued

**Fair value hierarchy** 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 inputs; or
- 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 only has goodwill that falls into this category (refer note 20).

Insurance investments are valued with reference to observable market data on the JSE and are categorised under Level 2.

### 5.2 Investment income

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Interest – insurance business | **52.3** | 50.0 |
| Realised gain on disposal of insurance investments | **1.3** | 0.3 |
| | **53.6** | 50.3 |

#### 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.
- 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.

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 5. Insurance continued

### 5.3 Insurance liabilities

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Unearned premiums | **38.6** | 48.2 |
| Opening balance | **48.2** | 133.2 |
| Recognised in income statement | **(9.6)** | (85.0) |
| Outstanding claims and IBNR | **66.2** | 54.5 |
| Opening balance | **54.5** | 42.7 |
| Recognised in income statement | **11.7** | 11.8 |
| Total insurance liabilities | **104.8** | 102.7 |

## 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.

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.

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 5. Insurance continued

### 5.4 Maturity analysis

| | 0 – 12 months Rm | 1 – 5 years Rm | >5 years Rm | Total Rm |
|---|---|---|---|---|
| **2020** | | | | |
| Insurance liabilities | **(80.8)** | **(24.0)** | **–** | **(104.8)** |
| 2019 | | | | |
| Insurance liabilities | (77.2) | (25.5) | – | (102.7) |

Refer to note 3 for the maturity analysis of insurance investments.

#### Insurance risk

The risks covered under insurance contracts entered into with customers by the group's insurer, Monarch Insurance Company Limited ("Monarch"), and external insurer's in the neighbouring foreign countries 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 permanent disability; and
- settlement of customer's outstanding balance or up to 12 months instalments due for temporary disability and loss of income.

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.

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, pandemic and employment trends. The group manages these risks through its underwriting strategy 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.

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 5. Insurance continued

### Insurance risk continued

Catastrophe cover has been placed with third-party 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 is subject to the regulations as set out in the Short-Term Insurance Act 53 of 1998, as amended and the Insurance Act 18 of 2017 ("Insurance Acts").

Board Notice 169 of 2011 ("BN169") stipulated the requirements for the calculation of the value of assets, liabilities and the capital adequacy requirement of Short-Term Insurers to 30 June 2018. BN169 was withdrawn and replaced with the requirements set out in the Insurance Acts, including the Governance and Operational Standards for Insurers and Financial Soundness Standards for Insurers. The Insurance Acts, which became effective on 1 July 2018, stipulate the calculation of the value of assets, liabilities and the solvency capital requirement of Short-Term Insurers and requires Monarch to hold certain prescribed assets to meet its insurance liabilities and solvency capital requirement. Management confirms that Monarch meets the standards in terms of the requirements of the Insurance Acts.

## 5.5 Insurance cell captive

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Investment in insurance cell captive included in other receivables | **21.1** | 27.3 |

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.

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 6. Borrowings, cash and net finance costs

### 6.1 Borrowings, banking facilities and cash

| | 2020 Rm | 2019 Rm |
|---|---|---|
| **Interest-bearing borrowings** | | |
| Short-term banking facilities | **(922.1)** | – |
| Cash-on-hand and deposits | **1 193.4** | 204.7 |
| **Net cash** | **271.3** | 204.7 |
| **Available facilities** | | |
| Banking facilities | **1 150.0** | 1 500.0 |
| Domestic Medium-Term Note Program | **2 000.0** | 2 000.0 |
| | **3 150.0** | 3 500.0 |
| **Available funds** | **3 421.3** | 3 704.7 |
| **Interest rate profile** | | |
| Interest rate profile of borrowings is as follows: | | |
| – Bank borrowings include revolving credit and overnight facilities. Revolving credit facilities are at interest rates linked to three-month JIBAR. The interest rates on the overnight facilities are based on rates as determined by each of the banks based on market conditions. The weighted average interest rate at the end of the reporting period is 7.6% (2019: 9.1%). | **922.1** | – |
| | **922.1** | – |
| The exposure of the group's borrowings to interest rate changes and the contractual repricing dates at the end of the reporting period are set out below in terms of years subsequent to reporting date: | | |
| Variable interest rates: | | |
| 1 year | **922.1** | – |
| 2 years | **–** | – |
| 3 years | **–** | – |
| | **922.1** | – |
| The above borrowings are unsecured. The group has committed facilities with banks and financial institutions of R1 150 million (2019: R1 500 million) and has established a Domestic Medium-Term Note program ("DMTN") in October 2013, under which the group can issue notes up to R2 billion. | | |
| **Cash and cash equivalents** | | |
| Cash-on-hand and deposits | **1 193.4** | 204.7 |
| | **1 193.4** | 204.7 |

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

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

### 6.1 Borrowings, banking facilities and cash continued

| | Liabilities from financing activities | | | |
|---|---|---|---|---|
| | Banking facilities due within 1 year Rm | Banking facilities due after 1 year Rm | Bank overdraft due within 1 year Rm | Total Rm |
| **Net debt as at 1 April 2018** | 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 |
| **Net debt as at 31 March 2019** | – | – | – | – |
| Cash flows | (942.2) | – | – | (942.2) |
| Interest payments which are presented as operating cash flows | 20.1 | – | – | 20.1 |
| **Net debt as at 31 March 2020** | **(922.1)** | **–** | **–** | **(922.1)** |

### 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 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.

| | | 2020 Rm | 2019 Rm |
|---|---|---|---|
| **Capital management** | | | |
| **Pre IFRS 16** | | | |
| Interest-bearing borrowings | | **922.1** | |
| Less: cash and cash equivalents | | **(1 193.4)** | (204.7) |
| Net debt | | **(271.3)** | (204.7) |
| Shareholders equity | | **4 835.9** | 4 876.1 |
| Gearing ratio | (%) | **(5.6)** | (4.2) |
| **Post IFRS 16** | | | |
| Interest-bearing borrowings | | **1 760.0** | |
| Less: cash and cash equivalents | | **(1 193.4)** | |
| Net debt | | **566.6** | |
| Shareholders equity | | **4 709.5** | |
| Gearing ratio | (%) | **12.0** | |

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

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

### 6.1 Borrowings, banking facilities and cash continued

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.

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 the optimal capital structure, dividends paid to shareholders may be adjusted, capital could be returned to shareholders or new shares could be issued.

#### 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 R65 million (2019: R36.1 million).

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

| Financial institutions | **2020 Long-term** | **2020 Short-term** | 2019 Long-term | 2019 Short-term | **2020 Rm** | 2019 Rm |
|---|---|---|---|---|---|---|
| FNB | **Ba1** | **NP** | Baa3 | P-3 | **132.5** | 57.3 |
| Absa | **Ba1** | **NP** | Baa3 | P-3 | **228.4** | 97.7 |
| Investec | **Ba1** | **NP** | Baa3 | P-3 | **300.2** | – |
| Standard Bank | **Ba1** | **NP** | Baa3 | P-3 | **200.2** | 0.1 |
| RMB | **Ba1** | **NP** | Baa3 | P-3 | **162.0** | 6.3 |
| Nedbank | **Ba1** | **NP** | Baa3 | P-3 | **164.5** | 38.1 |
| Other | | | | | **5.6** | 5.2 |
| Total | | | | | **1 193.4** | 204.7 |

#### 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

for the year ended 31 March 2020

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

### 6.2 Net finance costs

| | Notes | 2020 Rm | 2019 Rm |
|---|---|---|---|
| Interest paid | | **(98.0)** | (69.8) |
| Borrowings | 3 | **(20.1)** | (54.5) |
| Lease liabilities | 17.1 | **(71.5)** | – |
| Other | | **(6.4)** | (15.3) |
| Interest received – bank | | **12.4** | 23.0 |
| Interest received – other | | **21.8** | – |
| Forward exchange contracts | | **29.3** | 17.3 |
| Net finance costs | | **(34.5)** | (29.5) |

### 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. Although the derivatives have not been designated in a hedge relationship, they act as an economic hedge and will substantially offset the underlying transactions when they occur. Derivative instruments are classified as financial instruments under IFRS.

#### 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:

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Interest increases by 50 basis points | **(3.6)** | – |
| Interest decreases by 50 basis points | **3.6** | – |

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

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

### 6.2 Net finance costs continued

#### 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.

During the year, 28.9% (2019: 25.6%) of the purchases were in foreign denominated currencies. Below is a summary of the amounts payable under forward contracts:

| | Term | Average rate | Foreign currency FCm | Rand equivalent Rm | Fair value (gain)/loss Rm |
|---|---|---|---|---|---|
| **2020** | | | | | |
| US dollar | Less than 6 months | Rate at 16.15 | **9.9** | **173.8** | **(12.8)** |
| 2019 | | | | | |
| US dollar | Less than 3 months | Rate at 14.05 | 7.5 | 104.9 | 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:

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Currency appreciates by 10% | **12.5** | 7.6 |
| Currency depreciates by 10% | **(12.5)** | (7.6) |

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 7. Trade and other payables

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Trade payables | **196.5** | 160.9 |
| Accruals and other payables | **122.0** | 181.9 |
| Employment provisions | **106.5** | 109.7 |
| Refund obligation | **81.5** | 69.3 |
| Restoration provision | **37.1** | – |
| Cash-settled share-based payments (refer to note 14.3.2) | **4.3** | – |
| | **547.9** | 521.8 |

| 2020 | Restoration Provision Rm | Employment Provisions Rm |
|---|---|---|
| **Opening balance** | **–** | **109.7** |
| Reallocated from lease liabilities (refer to note 17.1) | **33.4** | **–** |
| Additions during the year | **4.1** | **15.7** |
| Utilised | **(0.4)** | **(18.9)** |
| **Closing balance** | **37.1** | **106.5** |

| 2019 | Employment Provisions Rm |
|---|---|
| Opening balance | 93.2 |
| Additions during the year | 17.1 |
| Utilised | (0.6) |
| Closing balance | 109.7 |

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 7. Trade and other payables continued

### Accounting policies

**Trade payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as financial instruments in terms of IFRS. The accounting policies for financial instruments are included in note 3.

**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**

Full details is set out in note 9.2 to the financial statements.

**Restoration provision**

A provision is recognised for the restoration costs associated with leased property. This is an estimate of costs to be incurred to restore the leased property back to its original state, as per the lease agreement. Restoration costs are provided for at the present value of expected future costs to settle the obligation and are recognised as part of the cost of the ROU asset. The future expected costs are based on past experience of management and is discounted at an appropriate discount rate. The estimated future costs of restoration are reviewed annually and adjusted accordingly.

**Cash-settled share-based payments**

Full details of the accounting policy is set out in note 14.3 to the financial statements.

# Lewis Group Limited:
# Consolidated financial statements

for the year ended 31 March 2020

## 8. Payments in advance

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Opening balance | **158.0** | 168.9 |
| Revenue recognised in the period previously included in the opening balance | **(101.0)** | (105.0) |
| Liability raised during the current period | **93.1** | 94.1 |
| Closing balance | **150.1** | 158.0 |

**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 R100 million (2019: R101 million) of the transaction price allocated to the unsatisfied contracts as of 31 March 2020 will be recognised as revenue during the next reporting period and the remaining R50.1 million (2019: R57 million) during the following reporting period.

## 9. Revenue

### 9.1 Revenue

| | 2020 Rm | 2019 Rm |
|---|---|---|
| | **6 453.3** | 6 137.2 |
| Retail revenue – revenue from contracts with customers | **4 475.3** | 4 242.3 |
| Merchandise sales | **3 685.5** | 3 519.9 |
| Ancillary services | **789.8** | 722.4 |
| Insurance revenue | **666.1** | 647.2 |
| Effective interest income | **1 311.9** | 1 247.7 |
| Finance charges and initiation fees earned | **1 414.3** | 1 358.1 |
| Adjustment for interest on credit impaired accounts | **(102.4)** | (110.4) |

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 9. Revenue continued

### 9.1 Revenue continued

#### Accounting policies

**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. 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:

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

(b) 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.

***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; and
- 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. Insurance premiums are recognised on a straight-line basis over the period of the contract, after an appropriate allowance is made for unearned premiums.

# Lewis Group Limited: Consolidated financial statements

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## 9. Revenue continued

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

| | Traditional Rm | Cash Rm | Total Rm |
|---|---|---|---|
| **2020** | | | |
| **Merchandise sales** | | | |
| – Cash | **1 058.6** | **530.1** | **1 588.7** |
| – Credit | **2 096.8** | **–** | **2 096.8** |
| **Ancillary services** | | | |
| – At a point in time | **167.8** | **10.3** | **178.1** |
| – Over time | **611.7** | **–** | **611.7** |
| | **3 934.9** | **540.4** | **4 475.3** |
| 2019 | | | |
| Merchandise sales | | | |
| – Cash | 1 003.4 | 478.4 | 1 481.8 |
| – Credit | 2 038.1 | – | 2 038.1 |
| Ancillary services | | | |
| – At a point in time | 156.2 | 8.6 | 164.8 |
| – Over time | 557.6 | – | 557.6 |
| | 3 755.3 | 487.0 | 4 242.3 |

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 9. Revenue continued

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

#### Significant accounting estimates and judgements

**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 arms length (i.e. no services are bundled with the purchase of merchandise). Consequently, there are no allocations of transaction prices required.

**Refund obligation**

The accumulated experience of the portfolio has been utilised to estimate such returns at the time of sale. Our assessment is that no significant change in the level of returns will occur. The assumptions and the estimates underlying the refund liability are reassessed at each reporting date and there has been no material change in these assumptions and estimates for the current period.

**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.

Service 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.

### 9.3 Insurance revenue

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Gross premiums written | **656.5** | 562.2 |
| Changes in unearned premiums | **9.6** | 85.0 |
| Net premiums earned | **666.1** | 647.2 |

# Lewis Group Limited: Consolidated financial statements

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## 10. Reportable segments

| Primary | | Traditional Rm | Cash Rm | Group Rm |
|---|---|---|---|---|
| **2020** | | | | |
| **Segment income statement** | | | | |
| **Total revenue from external customers** | | | | |
| Retail revenue – revenue from contracts with customers | | **3 934.9** | **540.4** | **4 475.3** |
| Insurance revenue | | **666.1** | **–** | **666.1** |
| Effective interest income | | **1 311.9** | **–** | **1 311.9** |
| | | **5 912.9** | **540.4** | **6 453.3** |
| **Cost of merchandise sales** | | **(1 863.5)** | **(310.0)** | **(2 173.5)** |
| **Operating costs** | | **(3 839.5)** | **(186.6)** | **(4 026.1)** |
| **Segment operating profit before investment income** | | **209.9** | **43.8** | **253.7** |
| **Segment operating margin** | **(%)** | **3.5** | **8.1** | **3.9** |
| **Segment assets[1]** | | **3 828.9** | **124.3** | **3 953.2** |
| **Capital expenditure** | | **106.0** | **2.1** | **108.1** |
| **Depreciation, amortisation and impairment** | | **324.8** | **50.7** | **375.5** |
| 2019 | | | | |
| Segment income statement | | | | |
| Total revenue from external customers | | | | |
| Retail revenue – revenue from contracts with customers | | 3 755.3 | 487.0 | 4 242.3 |
| Insurance revenue | | 647.2 | – | 647.2 |
| Effective interest income | | 1 247.7 | – | 1 247.7 |
| | | 5 650.2 | 487.0 | 6 137.2 |
| Cost of merchandise sales | | (1 787.5) | (281.8) | (2 069.3) |
| Operating costs | | (3 460.2) | (164.7) | (3 624.9) |
| Segment operating profit before investment income | | 402.5 | 40.5 | 443.0 |
| Segment operating margin | (%) | 7.1 | 8.3 | 7.2 |
| Segment assets[1] | | 3 734.4 | 136.1 | 3 870.5 |
| Capital expenditure | | 71.9 | 2.9 | 74.8 |
| Depreciation and amortisation | | 75.7 | 2.9 | 78.6 |

[1] *Segment assets include net instalment sale receivables of R3 212.5 million (2019: R3 204.7 million) and inventory of R740.7 million (2019: R665.8 million).*

The omni-channel has been discontinued as a separate business and has been integrated into the traditional business. The integration would result in the remaining operations of the omni-channel business becoming the online and call centre sales presence for the traditional business. The separate branding for the omni-channel segment has consequently been discontinued. Before the integration, the omni-channel business incurred a R13.2 million operating loss for the six months ended 30 September 2019. Due to the integration, the omni-channel business is no longer considered a separate segment and in accordance with IFRS 8, the comparatives have been restated as if the integration of the omni-channel business was in place last year.

# Lewis Group Limited: Consolidated financial statements

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## 10. Reportable segments continued

| Geographical | South Africa Rm | Namibia Rm | BLE[1] Rm | Total Rm |
|---|---|---|---|---|
| **2020** | | | | |
| Revenue | **5 492.7** | **475.9** | **484.7** | **6 453.3** |
| Non-current assets[2] | **883.5** | **114.9** | **140.3** | **1 138.7** |
| 2019 | | | | |
| Revenue | 5 131.2 | 491.6 | 514.4 | 6 137.2 |
| Non-current assets[2] | 330.7 | 24.8 | 65.7 | 421.2 |

[1] *Botswana, Lesotho and Eswatini*

[2] *Non-current assets are defined as property, plant and equipment, intangible assets (excluding goodwill) and right-of-use assets.*

### Accounting policy

Operating segments are reported in a manner consistent with the internal reporting to the chief operating decision-makers. The chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer and the Chief Financial Officer.

The group has identified its 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.

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

for the year ended 31 March 2020

## 11. Gross profit and inventories

| | | 2020 Rm | 2019 Rm |
|---|---|---|---|
| Merchandise sales | | **3 685.5** | 3 519.9 |
| Cost of merchandise sales | | **(2 173.5)** | (2 069.3) |
| Purchases | | **(2 248.4)** | (2 155.4) |
| Movement in inventory | | **74.9** | 86.1 |
| Merchandise gross profit | | **1 512.0** | 1 450.6 |
| Gross profit percentage | (%) | **41.0** | 41.2 |
| **Inventories** | | | |
| Cost of merchandise | | **827.3** | 742.9 |
| Less: provision for obsolescence | | **(86.6)** | (77.1) |
| | | **740.7** | 665.8 |

### 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.

## 12. Cash flow from operations

| | 2020 Rm | 2019 Rm |
|---|---|---|
| **12.1 Cash flow from trading:** | **892.1** | 501.8 |
| Operating profit before investment income | **253.7** | 443.0 |
| *Adjusted for:* | | |
| Share-based payments | **33.3** | 36.2 |
| Depreciation, amortisation and impairment | **375.5** | 78.6 |
| Movement in debtors impairment provision | **210.9** | (99.0) |
| Movement in other provisions | **13.8** | 23.3 |
| Other movements | **4.9** | 19.7 |
| Included in cash flow from trading is interest received on trade receivables of R1 414.3 million (2019: R1 358.1 million). | | |
| **12.2 Changes in working capital:** | **(255.8)** | 150.7 |
| Increase in inventories | **(85.0)** | (63.6) |
| (Increase)/decrease in trade and other receivables | **(213.3)** | 146.5 |
| Increase in trade and other payables | **48.3** | 77.2 |
| Decrease in payments in advance | **(7.9)** | (10.9) |
| Decrease in insurance premiums in advance | **–** | 75.6 |
| Increase/(decrease) in insurance liabilities | **2.1** | (74.1) |

# Lewis Group Limited:
# Consolidated financial statements

for the year ended 31 March 2020

## 13. Capital management

### 13.1 Earnings

| | 2020 Cents | 2019 Cents |
|---|---|---|
| **Earnings per share** | | |
| Earnings per share | **232.1** | 377.5 |
| Diluted earnings per share | **225.4** | 368.7 |
| **Headline earnings per share** | | |
| Headline earnings per share | **260.2** | 376.2 |
| Diluted headline earnings per share | **252.7** | 367.4 |

| Headline earnings | Gross Rm | Income tax effect Rm | Net Rm |
|---|---|---|---|
| **2020** | | | |
| Attributable earnings | **182.4** | **–** | **182.4** |
| Loss on disposal of fixed assets | **3.2** | **(0.9)** | **2.3** |
| Impairment of right-of-use assets | **26.6** | **(6.8)** | **19.8** |
| Headline earnings | **212.2** | **(7.7)** | **204.5** |
| 2019 | | | |
| Attributable earnings | 309.5 | – | 309.5 |
| Profit on disposal of fixed assets | (1.5) | 0.4 | (1.1) |
| Headline earnings | 308.0 | 0.4 | 308.4 |

### 13.2 Dividends

| | 2020 Cents | 2019 Cents |
|---|---|---|
| **Dividends paid per share** | | |
| Final dividend 2019 (2018) | **129.0** | 100.0 |
| Interim dividend 2020 (2019) | **120.0** | 105.0 |
| | **249.0** | 205.0 |
| **Dividends declared per share** | | |
| Interim dividend 2020 (2019) | **120.0** | 105.0 |
| Final dividend 2020 (2019) | **65.0** | 129.0 |
| | **185.0** | 234.0 |

| Dividends paid | 2020 Rm | 2019 Rm |
|---|---|---|
| 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 |
| Dividend no. 30 declared on 22 May 2019 and paid on 22 July 2019 | **103.6** | – |
| Dividend no. 31 declared on 20 November 2019 and paid on 27 January 2020 | **95.0** | – |
| **Dividends received on treasury shares** | | |
| Lewis Employee Share Incentive Scheme Trust | **(2.2)** | (0.1) |
| | **196.4** | 168.0 |

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 13. Capital management continued

### 13.3 Number of shares

| | 2020 000's | 2019 000's |
|---|---|---|
| **Weighted average number of shares** | | |
| Weighted average shares for earnings and headline earnings per share | **78 615** | 81 990 |
| Dilution resulting from share awards outstanding | **2 321** | 1 960 |
| Weighted average shares for diluted earnings and headline earnings per share | **80 936** | 83 950 |
| Diluted earnings and diluted headline earnings per share is calculated by adjusting the weighted average number of ordinary shares assuming that all share options will be exercised. The dilution is determined by the number of shares that could have been acquired at fair value (determined as the average annual market price of the shares) less the number of shares that would be issued on the exercise of all the share options. | | |
| **Number of ordinary shares in issue** | | |
| Number of shares issued at beginning of year | **80 210** | 92 652 |
| Treasury shares cancelled | **–** | (9 217) |
| Shares repurchased | **(3 311)** | (3 225) |
| Number of shares issued at end of year | **76 899** | 80 210 |
| Treasury shares held by: | | |
| Lewis Employee Share Incentive Scheme Trust | **(26)** | (16) |
| Effective number of shares in issue | **76 873** | 80 194 |

### 13.4 Equity

| | 2020 Rm | 2019 Rm |
|---|---|---|
| **Share capital and premium** | | |
| Share capital | **1.0** | 1.0 |
| Share premium | **2 029.5** | 2 131.2 |
| Reverse acquisition reserve | **(2 123.1)** | (2 123.1) |
| Cost of cancelled shares | **93.5** | (8.2) |
| | **0.9** | 0.9 |
| Opening balance | **0.9** | 425.0 |
| Cost of own shares acquired | **(101.7)** | (99.0) |
| Treasury shares cancelled | **–** | (477.7) |
| Transfer of cost of cancelled shares | **101.7** | 152.6 |
| | **0.9** | 0.9 |
| **Treasury shares** | | |
| Opening balance | **(0.5)** | (480.2) |
| Cost of own shares acquired | **(21.0)** | (6.1) |
| Treasury shares cancelled | **–** | 477.7 |
| Share awards to employees | **20.5** | 8.1 |
| | **(1.0)** | (0.5) |
| Treasury shares | **1.0** | 0.5 |
| Lewis Employee Share Incentive Scheme Trust | **1.0** | 0.5 |

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 13. Capital management continued

### 13.4 Equity continued

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 25 October 2018. | **1 931 945** | **32.3** | **62.4** |
| In terms of the general authority granted by shareholders at the annual general meeting held on 25 October 2019. | **1 379 041** | **28.5** | **39.3** |
| | **3 310 986** | | **101.7** |

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.

#### 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.

#### Cancellation of treasury shares

Lewis Stores (Pty) Ltd ("Lewis Stores"), previously held 9 216 928 ordinary shares in Lewis Group Ltd ("the company"), which comprised approximately 9.95% of the issued ordinary shares of the company. On 4 June 2018, Lewis Stores made a distribution *in specie* of the treasury shares to the company, in its capacity as the holding company of Lewis Stores. On completion of the distribution, the treasury shares have reverted to the authorised, but unissued share capital of the company with effect from 4 June 2018. There are no longer any treasury shares in issue held by the company's subsidiaries, except for the Lewis Employee Share Incentive Scheme 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 26 437 shares (2019: 15 842 shares), all of which will be utilised to cover share awards granted to executives.

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 13. Capital management continued

### 13.5 Beneficial shareholders

| | 2020 Number of shares Total | 2020 % holding | 2019 Number of shares Total | 2019 % holding |
|---|---|---|---|---|
| Government Employees Pension Fund (SA) | **7 890 768** | **10.26** | 7 308 407 | 9.11 |
| Trimark Global Endeavour Fund (Canada) | **7 454 763** | **9.69** | 9 607 131 | 11.98 |
| Trimark Global Balanced Fund (Canada) | **4 047 392** | **5.26** | 4 268 216 | 5.32 |
| Trimark Global Endeavour Class | **–** | **–** | 4 030 513 | 5.02 |

### 13.6 Other reserves

| | Fair value reserve Rm | Foreign currency translation reserve Rm | Share-based payments reserve Rm | Other Rm | Total Rm |
|---|---|---|---|---|---|
| **2020** | | | | | |
| **Opening balance** | **(12.0)** | **4.5** | **55.1** | **0.8** | **48.4** |
| Fair value adjustments of FVOCI debt investments | **(35.7)** | | | | **(35.7)** |
| Disposal of FVOCI debt investments recognised | **1.0** | | | | **1.0** |
| Movement in foreign currency translation reserve | | **31.3** | | | **31.3** |
| Transfer of share-based payments reserve to retained earnings on vesting | | | **(20.9)** | | **(20.9)** |
| Equity settled share-based payments | | | **29.0** | | **29.0** |
| Transfer of other reserve to retained earnings | | | | **(0.8)** | **(0.8)** |
| **Closing balance** | **(46.7)** | **35.8** | **63.2** | **–** | **52.3** |
| 2019 | | | | | |
| Opening balance | 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 payments reserve to retained earnings on vesting | | | (20.3) | | (20.3) |
| Equity settled share-based payments | | | 36.2 | | 36.2 |
| Closing balance | (12.0) | 4.5 | 55.1 | 0.8 | 48.4 |

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 13. Capital management continued

### 13.7 Retained earnings

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Opening balance | **4 827.3** | 5 461.1 |
| IFRS 9 Transitional adjustments – refer note 25 | **–** | (604.8) |
| IFRS 15 Transitional adjustments – refer note 25 | **–** | (26.0) |
| IFRS 16 Transitional adjustments – refer note 1.3 | **(92.8)** | – |
| Opening balance (Restated) | **4 734.5** | 4 830.3 |
| Net profit attributable to ordinary shareholders | **182.4** | 309.5 |
| Distribution to shareholders | **(196.4)** | (168.0) |
| Transfer of cost of cancelled shares | **(101.7)** | (152.6) |
| Transfer of share-based payments reserve to retained earnings on vesting | **20.9** | 20.3 |
| Retirement benefit remeasurements | **37.3** | (4.1) |
| Share awards to employees | **(20.5)** | (8.1) |
| Transfer of other reserve to retained earnings | **0.8** | – |
| | **4 657.3** | 4 827.3 |

Distribution by foreign subsidiaries of all their reserves at balance sheet date will potentially give rise to withholding taxes of R63 million (2019: R78 million).

### Accounting policy

#### Share capital

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

Where any group company purchases the company's equity share capital (treasury shares), the consideration paid, including the costs attributable to the acquisition, is deducted from the group's equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of transaction costs, is included in the group's equity. The weighted average number of shares is reduced by the treasury shares for earnings per share purposes. Dividends received on treasury shares are eliminated on consolidation.

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.

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 14. Directors and employees

### 14.1 Employee costs

| | 2020 Rm | 2019 Rm |
|---|---|---|
| **Employment costs** | | |
| Salaries, wages, commissions and bonuses | **1 098.5** | 1 030.6 |
| Retirement benefit costs | **74.6** | 70.0 |
| Share-based payments | **33.3** | 36.2 |
| Other employment costs | **8.0** | 12.8 |
| | **1 214.4** | 1 149.5 |
| **Remuneration of key executives** | | |
| Salary | **16.1** | 14.6 |
| Bonus | **21.8** | 13.5 |
| Retirement and medical contributions | **3.5** | 2.9 |
| Gains on share awards vested(*) | **11.1** | 4.6 |
| | **52.5** | 35.6 |

(*) *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.

### 14.2 Directors' emoluments

| Non-executive directors – fees as directors | 2020 R'000 | 2019 R'000 |
|---|---|---|
| H. Saven | | |
| – company | **1 070** | 1 023 |
| – for subsidiary | **245** | 231 |
| Prof. F. Abrahams | | |
| – company | **840** | 804 |
| – for subsidiary | **245** | 231 |
| A. Bodasing | **623** | 596 |
| D. Motsepe | **694** | 664 |
| T. Njikizana (Appointed 19 August 2019) | **395** | – |
| A.J. Smart (Retired 2 April 2020) | | |
| – company | **694** | 664 |
| – for subsidiary | **318** | 300 |
| D. Westcott | | |
| – company | **848** | 812 |
| – for subsidiary | **320** | 302 |
| | **6 292** | 5 627 |

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 14. Directors and employees continued

### 14.2 Directors' emoluments continued

| Executive directors | 2020 J. Bestbier R'000 | 2020 J. Enslin R'000 | 2019 J. Bestbier R'000 | 2019 J. Enslin R'000 |
|---|---|---|---|---|
| All emoluments are paid by the subsidiary. | | | | |
| Salary | **2 586** | **4 169** | 2 328 | 3 834 |
| Bonuses paid during the year | **3 491** | **5 756** | 1 940 | 3 575 |
| Contributions to pension scheme | **414** | **1 027** | 372 | 613 |
| Contributions to medical aid | **–** | **164** | – | 153 |
| Gains on share awards | **806** | **3 706** | 296 | 1 558 |
| | **7 297** | **14 822** | 4 936 | 9 733 |
| **Gains on share awards** | | | | |
| Share awards vested | **24 128** | **110 985** | 9 505 | 50 077 |
| Offer date | **30 June 2016/ 30 June 2015** | **30 June 2016/ 30 June 2015** | 30 June 15 | 30 June 15 |
| Date vested | **30 June 2019** | **30 June 2019** | 30 June 18 | 30 June 18 |
| Market value on date of vesting | **805 634** | **3 705 789** | 295 701 | 1 557 895 |
| Gain on share awards | **805 634** | **3 705 789** | 295 701 | 1 557 895 |

| Outstanding share awards – Equity-Settled Schemes | 2020 J. Bestbier | 2020 J. Enslin | 2019 J. Bestbier | 2019 J. Enslin |
|---|---|---|---|---|
| **Lewis Short-Term and Long-Term Executive Performance Scheme** | | | | |
| 30 June 2015 – Short-term award | | | 1 500 | 6 000 |
| 30 June 2016 – Short-term award | | | 22 628 | 104 986 |
| 1 June 2017 – Short-term award | **119 107** | **219 498** | 119 107 | 219 498 |
| 30 June 2018 – Short-term award | **114 284** | **188 397** | 114 284 | 188 397 |
| **Lewis Executive Retention Scheme** | | | | |
| 30 June 2018 | **48 493** | **119 154** | 48 493 | 119 154 |
| 30 June 2019 | **70 258** | **115 816** | | |
| | **352 142** | **642 865** | 306 012 | 638 035 |

In terms of the Lewis Executive Retention Scheme, the Trust holds 194 555 shares (2019: 92 215 shares) on behalf of the above directors by virtue of the investment of their bonuses into the scheme.

| Outstanding Notional Shares – Cash-Settled Schemes | 2020 J. Bestbier | 2020 J. Enslin |
|---|---|---|
| Lewis Cash-Settled Short-Term and Long-Term Executive Performance Scheme – New Scheme | | |
| 30 June 2019 | **116 217** | **187 347** |

In terms of this scheme, the award is settled in cash based on the number of notional shares accruing to the participant in terms of the scheme.

#### Directors' interests

The directors' interests are set out on page 15.

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 14. Directors and employees continued

### 14.3 Share-based payments

| | | 2020 Rm | 2019 Rm |
|---|---|---|---|
| 14.3.1 | **Equity-settled** | | |
| | **Value of services provided:** | | |
| | In respect of share awards granted. | **29.0** | 36.2 |

For further details of the Equity-settled scheme, refer note 14.4.1.

#### Accounting policies

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

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

#### Significant accounting estimates and judgements

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

| | | 2020 | 2019 |
|---|---|---|---|
| Weighted average share price | (R) | **32.21** | 35.22 |
| Weighted average expected volatility | (%) | **80.0** | 76.6 |
| Weighted average expected dividend yield | (%) | **5.3** | 6.2 |
| Weighted average risk-free rate (bond yield curve at date of grant) | (%) | **8.6** | 8.6 |

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 14. Directors and employees continued

### 14.3 Share-based payments continued

#### 14.3.2 Cash-settled

A new cash-settled scheme, the Lewis Cash-Settled Long-Term and Short-Term Executive Performance Plan, will operate on the identical basis as the Lewis Long-Term and Short-Term Executive Performance Scheme ("LSPS") described below, except notional shares will be issued and vesting will take place in cash. Awards under this scheme were granted on 30 June 2019.

| | 2020 Rm |
|---|---|
| Opening balance | – |
| Income statement charge before revaluation of liability | **8.2** |
| Revaluation of liability | **(3.9)** |
| Payments made | – |
| Closing balance | **4.3** |

For further details of the cash-settled scheme, refer note 14.4.2.

### Significant accounting estimates and judgements

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

| | | 2020 |
|---|---|---|
| Share price | (R) | **17.82** |
| Expected volatility | (%) | **90.0** |
| Expected dividend yield | (%) | **8.4** |
| Risk-free rate (bond yield curve at year end) | (%) | **9.0** |

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 14. Directors and employees continued

### 14.4 Share incentive schemes (Equity and Cash-Settled)

#### 14.4.1 Equity-Settled 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 the Lewis Executive Retention Scheme and the Lewis Long-Term and Short-Term Executive Performance Scheme. The awards for these schemes are reflected below.

The Lewis 2019 Executive Retention Scheme and the Lewis 2019 Executive Performance Scheme were approved by shareholders at the general meeting on 25 October 2019. No awards under these schemes have been made and it will only be considered by the Remuneration Committee in the new financial year. These schemes will ultimately replace the Lewis Executive Retention Scheme and the Lewis Long-Term and Short-Term Executive Performance Scheme as the maximum number of shares that can be utilised under these schemes has been reached.

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

| | Lewis Executive Retention Scheme | Lewis Long-Term and Short-Term Executive Performance |
|---|---|---|
| **2020** | | |
| Beginning of year | **439 308** | **3 266 973** |
| Granted | **448 380** | |
| Forfeited | | **(205 262)** |
| Vested | | **(571 383)** |
| End of year | **887 688** | **2 490 328** |
| Maximum awards available over the life of the scheme | **1 000 000** | **3 500 000** |
| Utilised for the scheme to date | **998 982** | **3 391 127** |
| Invested shares | **489 348** | |
| 2019 | | |
| Beginning of year | 111 294 | 2 727 929 |
| Granted | 439 308 | 1 133 581 |
| Forfeited | | (470 383) |
| Vested | (111 294) | (124 154) |
| End of 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 | |

The weighted average share price at vesting date was R33.39 (2019: R31.11).

The weighted average remaining contractual life for share options outstanding at the end of the period is 1 year (2019: 1.5 years).

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

# Lewis Group Limited: Consolidated financial statements

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## 14. Directors and employees continued

### 14.4 Share incentive schemes (Equity and Cash-Settled) continued

#### Lewis Executive Retention 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")

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.

Performance targets may be adjusted where material changes (both positive and negative) have been made to accounting policies resulting from IFRS becoming effective after the grant date. The committee shall be entitled, in exceptional circumstances (both positive and negative), to amend performance targets having regard to all circumstances including, but not limited to, changes to international and national macro economic circumstances, the performance of the Lewis Group relative to the industry in which it operates and any corporate actions undertaken by the Lewis Group during the relevant performance period.

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; and
- 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 debtor costs as a percentage of debtors at gross carrying value; 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; and
- gearing ratio.

There are no long-term awards outstanding.

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 14. Directors and employees continued

### 14.4 Share incentive schemes (Equity and Cash-Settled) continued

#### 14.4.2 Cash-Settled Scheme

On 17 May 2019, the Remuneration Committee adopted the Lewis Cash-Settled Long-term and Short-term Executive Performance Plan. Under this plan, notional shares are allocated to participants and on date of vesting, the notional shares are settled in cash. Other than these cash-settled aspects, the terms and conditions of this scheme are almost identical to that of the equity-settled Lewis Long-term and Short-term Executive Performance Scheme. For further details, refer the description of the Lewis Long-term and Short-term Executive Performance Scheme in note 14.4.1.

On 30 June 2019, the first awards under this scheme were granted. The award was a short-term award and included all the performance criteria applicable to such awards. Below is a reconciliation of the notional shares granted under the plan:

| Lewis Cash-Settled Long-term and Short-term Executive Performance Plan – Notional Shares | 2020 |
|---|---|
| Beginning of year | – |
| Granted | **1 200 299** |
| Forfeited | **(42 864)** |
| Vested | – |
| End of year | **1 157 435** |

The weighted average remaining contractual life for share options outstanding at the end of the period is 2.25 years.

### 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 | |
|---|---|---|
| | 2020 | 2019 |
| The number of employees on these plans are as follows: | | |
| Lewis Group Pension Fund | **60** | 72 |
| Lewis Stores Retirement Pension Fund | **33** | 32 |
| SACCAWU Provident Fund | **2 276** | 2 188 |
| Lewis Stores Provident Fund | **4 031** | 3 872 |
| Lewis Stores Namibia Orion Pension Fund | **661** | 608 |
| Alexander Forbes Botswana Umbrella Pension Fund | **229** | 231 |

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 2020 by a qualified actuary in accordance with the requirements of IAS 19. The group has a commitment to meet these unfunded benefits.

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 14. Directors and employees continued

### 14.5 Retirement benefits continued

| | 2020 Rm | 2019 Rm |
|---|---|---|
| **14.5.2 Effects on comprehensive income** | | |
| Effect on income statement: | | |
| Defined benefit retirement plans (refer note 14.5.4) | **11.8** | 7.0 |
| Post-retirement healthcare plans (refer note 14.5.5) | **9.2** | 8.7 |
| Defined contribution plans (refer note 14.5.6) | **53.6** | 54.3 |
| Income statement charge | **74.6** | 70.0 |
| Actuarial gains and (losses) included in other comprehensive income: | | |
| Defined benefit retirement plans | **31.0** | (11.9) |
| Post-retirement healthcare plans | **20.1** | 6.2 |
| | **51.1** | (5.7) |
| Actuarial gains and (losses) due to: | | |
| Demographic assumptions | **7.8** | 8.4 |
| Financial assumptions | **24.6** | (53.7) |
| Experience adjustments | **18.7** | 39.6 |
| | **51.1** | (5.7) |
| **14.5.3 Amounts recognised in the balance sheet** | | |
| Retirement benefit asset (refer note 14.5.4) | **(106.8)** | (79.0) |
| Present value of unfunded obligations as a liability (refer note 14.5.4) | **2.1** | 2.1 |
| Present value of post-retirement healthcare benefits (refer note 14.5.5) | **68.6** | 85.1 |
| Retirement benefit liability | **(70.7)** | 87.2 |

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 14. Directors and employees continued

### 14.5 Retirement benefits continued

#### 14.5.4 Defined benefit retirement plans

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Present value of funded obligations | **490.3** | 494.8 |
| Fair value of plan assets | **(624.4)** | (595.8) |
| Asset ceiling limit applied in terms of IAS 19 | **27.3** | 22.0 |
| Retirement benefit asset | **(106.8)** | (79.0) |
| **Total movement in retirement benefit asset** | | |
| Present value at the beginning of the year | **(79.0)** | (91.1) |
| Income statement charge | **11.8** | 6.8 |
| Current service cost | **15.6** | 15.4 |
| Past service cost | **1.6** | – |
| Risk and expenses | **1.9** | – |
| Net interest income | **(7.3)** | (8.6) |
| Actuarial (gains) and losses included in other comprehensive income | **(31.0)** | 11.8 |
| Contributions paid during the year | **(8.6)** | (6.5) |
| Present value at the end of the year | **(106.8)** | (79.0) |
| **Total movement in unfunded obligations as a liability** | | |
| Present value at the beginning of the year | **2.1** | 2.1 |
| Income statement charge – interest | **0.2** | 0.2 |
| Actuarial (gains) and losses included in other comprehensive income | **–** | 0.1 |
| Contributions paid during the year | **(0.2)** | (0.3) |
| Present value at the end of the year | **2.1** | 2.1 |
| **Total present value of defined benefit obligations** | | |
| Beginning of the year | **494.8** | 542.1 |
| Current service cost | **15.6** | 15.4 |
| Past service cost | **1.6** | – |
| Interest cost | **48.4** | 52.2 |
| Employee contributions | **0.7** | 0.8 |
| Benefit payments | **(39.7)** | (38.7) |
| Actuarial (gains) and losses included in other comprehensive income | **(31.1)** | (77.0) |
| End of the year | **490.3** | 494.8 |
| **Fair value of defined benefit plan assets** | | |
| Beginning of the year | **595.8** | 633.2 |
| Employee contributions | **0.7** | 0.8 |
| Employer contributions | **8.6** | 5.0 |
| Interest income | **57.8** | 60.4 |
| Risk and expenses | **(1.9)** | – |
| Benefit payments | **(39.7)** | (39.0) |
| Actuarial (gains) and losses included in other comprehensive income | **3.1** | (64.6) |
| End of the year | **624.4** | 595.8 |
| **Asset ceiling limit applied in terms of IAS 19** | | |
| Beginning of the year | **(22.0)** | (3.7) |
| Interest income | **(2.1)** | (0.3) |
| Actuarial (gains) and losses included in other comprehensive income | **(3.2)** | (18.0) |
| End of the year | **(27.3)** | (22.0) |

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 14. Directors and employees continued

### 14.5 Retirement benefits continued

#### 14.5.4 Defined benefit retirement plans continued

**Plan assets**

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

| | | 2020 | 2019 |
|---|---|---|---|
| Cash | (%) | **13.8** | 11.0 |
| Bonds – Listed | (%) | **14.6** | 14.7 |
| Equity – Listed | (%) | **42.5** | 48.2 |
| International equity – Listed | (%) | **20.9** | 19.0 |
| International bonds – Listed | (%) | **0.5** | 0.5 |
| Other | (%) | **7.7** | 6.6 |
| | | **100.0** | 100.0 |

The defined benefit funds are final salary defined benefit plans. These schemes are valued by an independent actuary on an annual basis in terms of IAS 19 using the projected unit credit method. The latest valuation was carried out as at 1 January 2020 with a special valuation performed at 31 March 2020 to assess the impact of COVID-19.

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 R27 million (2019: 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.

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 14. Directors and employees continued

### 14.5 Retirement benefits continued

#### 14.5.4 Defined benefit retirement plans continued

### 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:**

| | | 2020 | 2019 |
|---|---|---|---|
| Discount rate | (%) | **9.8** | 10.0 |
| Inflation rate | (%) | **6.3** | 6.8 |
| Future salary increases | (%) | **7.3** | 6.8 |
| Future pension increases | (%) | **6.3** | 7.8 |

The weighted average duration of the actuarial liability is 12.2 years (2019: 12.9 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 | |
|---|---|---|---|
| | | 2020 | 2019 |
| Discount rate | + 1% | **(10.5%)** | (11.4%) |
| | – 1% | **12.4%** | 13.4% |
| Salary increases | + 1% | **2.6%** | 3.0% |
| | – 1% | **(2.6%)** | (2.9%) |
| Pension increases | + 1% | **9.4%** | 9.9% |
| | – 1% | **(8.4%)** | (8.7%) |
| Mortality | + 1 year | **(2.0%)** | (2.5%) |
| | – 1 year | **2.9%** | 2.2% |

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

| | | 2020 | 2019 |
|---|---|---|---|
| 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) | **12.6** | 13.8 |
| Female | (years) | **14.6** | 16.1 |
| Actual return on plan assets | (%) | **9.7** | 12.9 |

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 14. Directors and employees continued

### 14.5 Retirement benefits continued

#### 14.5.4 Defined benefit retirement plans continued

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Expected contributions to the defined benefit plans for the next annual reporting period | **8.4** | 5.4 |

**Valuation as at 31 March 2020**

For sensitivity analysis purposes, a special valuation was performed as at 31 March 2020 for the defined benefit retirement plans to assess the potential impact of the COVID-19 lockdown.

The results are as follows:

| | 31 March 2020 Rm | 1 January 2020 Rm | Net movement Rm |
|---|---|---|---|
| **Potential effect on the balance sheet** | | | |
| Present value of funded obligations | **416.7** | **490.3** | **73.6** |
| Fair value of plan assets | **(541.6)** | **(624.4)** | **(82.8)** |
| Asset ceiling limit applied in terms of IAS 19 | **27.9** | **27.3** | **(0.6)** |
| Retirement benefit asset | **(97.0)** | **(106.8)** | **(9.8)** |
| **Potential effect on the income statement** | | | **–** |
| **Potential effect on other comprehensive income** | | | |
| Actuarial gains and (losses) included in other comprehensive income | | | **(9.8)** |
| **Potential effect on comprehensive income** | | | **(9.8)** |

**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 may be a risk for the Lewis Stores 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.

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 14. Directors and employees continued

### 14.5 Retirement benefits continued

#### 14.5.5 Post-retirement healthcare benefits

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Present value of post-retirement healthcare benefits liability | **68.6** | 85.1 |
| **Movement in post-retirement healthcare liability** | | |
| Present value of liability at the beginning of the year | **85.1** | 87.7 |
| Charged to income statement | **9.2** | 8.7 |
| Current service cost | **0.7** | 0.9 |
| Interest cost | **8.5** | 7.8 |
| Actuarial gains recognised in other comprehensive income | **(20.1)** | (6.2) |
| Employer benefit payments | **(5.6)** | (5.1) |
| Post-retirement healthcare benefits liability | **68.6** | 85.1 |

The liability was valued as at 31 March 2020 by a qualified actuary in accordance with the requirements of IAS 19.

### 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

for the year ended 31 March 2020

## 14. Directors and employees continued

### 14.5 Retirement benefits continued

#### 14.5.5 Post-retirement healthcare benefits continued

### 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:**

| | | 2020 | 2019 |
|---|---|---|---|
| Healthcare inflation rate | (%) | **9.1** | 8.6 |
| CPI inflation | (%) | **7.1** | 6.6 |
| Discount rate | (%) | **13.0** | 10.4 |
| Average retirement age | (years) | **63** | 63 |

The weighted average duration of the actuarial liability is 10.9 years (2019: 13.7 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 | |
|---|---|---|---|
| | | 2020 | 2019 |
| Discount Rate | + 1% | **(8.6%)** | (10.1%) |
| | – 1% | **10.2%** | 12.3% |
| Healthcare cost | + 1% | **10.3%** | 4.7% |
| | – 1% | **(8.8%)** | 12.0% |
| Expected retirement age | + 1 year | **(1.5%)** | (1.9%) |
| | – 1 year | **1.6%** | 1.6% |

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.

**Effect of COVID-19 Lockdown**

The discount rate as at 29 February 2020 was 10.8% based on the yield curve as at that date, compared to the discount rate of 13% used at 31 March 2020. Using the discount rate of 10.8%, the valuation of the post-retirement healthcare liability would have been R77.1 million with the total difference of R8.5 million being accounted for in other comprehensive income. No effect on the income statement.

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 14. Directors and employees continued

### 14.5 Retirement benefits continued

#### 14.5.5 Post-retirement healthcare benefits continued

**Actuarial risks**

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

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

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

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

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

#### 14.5.6 Defined contribution plans

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Defined contribution plan costs | **53.5** | 54.3 |

### 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.

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 15. Taxation

| | | 2020 Rm | 2019 Rm |
|---|---|---|---|
| **Taxation per income statement** | | | |
| South Africa | | **97.2** | 133.6 |
| Foreign | | **(6.8)** | 20.7 |
| | | **90.4** | 154.3 |
| Comprising: | | | |
| Normal taxation | | **34.7** | 143.7 |
| Current year | | **66.4** | 107.0 |
| Prior year | | **(31.7)** | 36.7 |
| Deferred taxation | | **45.7** | (4.4) |
| Current year | | **12.1** | 23.3 |
| Prior year | | **33.6** | (27.7) |
| Withholding tax | | **10.0** | 15.0 |
| | | **90.4** | 154.3 |
| **Tax rate reconciliation** | | | |
| Profit before taxation | | **272.8** | 463.8 |
| Taxation calculated at a tax rate of 28% (2019: 28%) | | **76.4** | 129.9 |
| Differing tax rates in foreign countries | | **2.6** | 3.5 |
| Disallowances | | **14.0** | 7.9 |
| Exemptions | | **(14.5)** | (11.0) |
| Prior years | | **1.9** | 9.0 |
| Withholding tax | | **10.0** | 15.0 |
| Taxation per income statement | | **90.4** | 154.3 |
| Effective tax rate | (%) | **33.1** | 33.3 |
| Taxation disclosed as: | | | |
| **Current tax asset** | | **(54.9)** | (102.9) |
| **Current tax liability** | | **21.9** | – |
| | | **(33.0)** | (102.9) |
| **Taxation refunded/(paid) per cash flow statement** | | | |
| Amount due at the beginning of the year | | **102.9** | 136.5 |
| Amount charged to the income statement for normal tax and withholding tax | | **(44.7)** | (158.7) |
| Cessation of re-insurance | | **–** | (3.0) |
| Amount due at the end of the year | | **(33.0)** | (102.9) |
| | | **25.2** | (128.1) |

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 15. Taxation continued

| | 2020 Rm | 2019 Rm |
|---|---|---|
| **Deferred taxation as per balance sheet** | | |
| Balance at the beginning of the year | **(152.2)** | 110.1 |
| *Movement for the year attributable to:* | | |
| Income statement (debit)/credit | **45.7** | (4.5) |
| IFRS 9 transitional adjustments – refer note 25 | **–** | (237.1) |
| IFRS 15 transitional adjustments – refer note 25 | **–** | (10.1) |
| IFRS 16 transitional adjustments – refer note 1.3 | **(36.6)** | – |
| Deferred tax on fair value adjustment in other comprehensive income | **(13.5)** | (6.0) |
| Deferred tax on retirement benefit remeasurements | **13.8** | (1.6) |
| Cessation of re-insurance | **–** | (3.0) |
| **Balance at the end of the year** | **(142.8)** | (152.2) |
| **This balance comprises** | | |
| Capital allowances (including right-of-use assets) | **272.5** | 47.8 |
| FVOCI debt investments | **(18.2)** | (4.8) |
| Lease liabilities | **(273.7)** | – |
| Debtors' allowances | **(6.5)** | (106.1) |
| Income and expense recognition | **(7.9)** | (4.4) |
| Assessed loss | **(58.5)** | (14.3) |
| Other provisions | **(50.5)** | (70.4) |
| **Balance at the end of the year** | **(142.8)** | (152.2) |
| Disclosed as: | | |
| **Deferred tax asset** | **(166.1)** | (195.4) |
| **Deferred tax liability** | **23.3** | 43.2 |
| | **(142.8)** | (152.2) |

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 group has concluded that the deferred tax asset will be recoverable using estimated future taxable income based on approved budgets for the entities.

### Accounting policy

**Current and deferred taxation**

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

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

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

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

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

Deferred tax is done on a net basis for IFRS 16 right-of-use assets and lease liabilities.

# Lewis Group Limited: Consolidated financial statements

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## 15. Taxation continued

### 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. Depreciation, amortisation and impairment

| | Notes | 2020 Rm | 2019 Rm |
|---|---|---|---|
| Depreciation | | | |
| Right-of-use assets | 17.2 | **(271.8)** | – |
| Property, plant and equipment | 18 | **(66.1)** | (66.5) |
| Amortisation | | | |
| Intangible assets | 19 | **(11.0)** | (12.1) |
| Impairment | | | |
| Right-of-use assets | 17.2 | **(26.6)** | – |
| | | **(375.5)** | (78.6) |

Refer to below notes for the accounting policies and significant estimates and judgements:

| | Note reference |
|---|---|
| – Depreciation | |
| Right-of-use assets | 17 |
| Property, plant and equipment | 18 |
| – Amortisation | |
| Intangible assets | 19 |
| – Impairment | |
| Right-of-use assets | 17 |
| Impairment of non-financial assets | 23.1 |

# Lewis Group Limited: Consolidated financial statements

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## 17. Leases

| | 2020 Rm |
|---|---|
| **17.1 Lease liabilities recognised** | |
| Recognised on adoption of IFRS 16 | 856.1 |
| Reallocated to restoration provision (refer to note 7) | (33.4) |
| Additions and renewed leases | 269.3 |
| Expired, renegotiated and modified leases | 2.1 |
| Principal portion of lease liabilities | (256.2) |
| Interest on lease liabilities | 71.5 |
| Lease liability payments | (327.7) |
| Closing balance | 837.9 |
| Analysed as follows: | 837.9 |
| Non-current | 611.1 |
| Current | 226.8 |
| **17.2 Right-of-use assets** | |
| **Land and buildings** | |
| Recognised on adoption of IFRS 16 | 726.2 |
| Additions and renewed leases | 269.3 |
| Expired, renegotiated and modified leases | (3.4) |
| Depreciation | (271.8) |
| Impairment | (26.6) |
| Closing balance | 693.7 |

### 17.3 Liquidity risk

The maturity analysis of undiscounted liabilities are as follows:

| | 0 – 12 months Rm | 1 – 5 years Rm | >5 years Rm | Total Rm |
|---|---|---|---|---|
| **2020** | | | | |
| **Liabilities** | | | | |
| Lease liabilities | 226.8 | 510.0 | 101.1 | 837.9 |
| Interest on lease liabilities | 86.0 | 86.6 | 11.9 | 184.5 |
| Extension options[1] | 124.0 | 458.1 | 177.9 | 760.0 |

[1] *Undiscounted payments comprise extension options not included in the lease liabilities. These extension options have not been included in the lease liabilities as it is not reasonably certain that they will be exercised.*

The average remaining lease term is 3.1 years as at 31 March 2020.

# Lewis Group Limited: Consolidated financial statements

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## 17. Leases continued

### 17.4 Short-term and low value leases

| | 2020 Rm |
|---|---|
| Expense relating to short-term and low value leases (included in other operating costs) | **11.3** |

Leases of property, plant and equipment were classified as operating leases (see note 1.3) until the 2019 financial year. From 1 April 2019, leases are recognised as a lease liability and corresponding ROU asset at the commencement date of each qualifying lease.

The total cash outflow in respect of lease liability payments in 2020 was R327.7 million.

### 17.5 Operating leases – For the comparative period

| | 2019 Rm |
|---|---|
| **Operating lease charged to income statement** | |
| Operating lease payments on a cash flow basis | 333.2 |
| Lease adjustment | 1.5 |
| Operating leases on a straight-line basis | 334.7 |
| **Operating lease commitments** | |
| Payments on a straight-line basis: | |
| Within one year | 255.6 |
| Two to five years | 400.6 |
| | 656.2 |
| Payments on a cash flow basis: | |
| Within one year | 258.3 |
| Two to five years | 427.9 |
| | 686.2 |

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 17. Leases continued

### Accounting policies – 2020

The group leases various properties such as stores, storerooms, warehouses and offices. Lease agreements are generally entered into for fixed periods of one to five years and may include further extension options. Leases are recognised as a lease liability and a corresponding ROU asset at the date of commencement of the lease agreement.

### Lease liabilities

**Initial recognition and measurement**

The lease liability will be measured at the present value of the future lease payments discounted over the lease term using the group's relevant incremental borrowing rate as the interest rate implicit in the lease is not readily determinable. Future lease payments comprise fixed lease payments (including in-substance fixed payments), less any lease incentives receivable. Future lease payments include lease extension options, where the option to exercise the extension is reasonably certain.

**Subsequent measurement**

Subsequent to initial recognition, the lease liability will be reduced by the lease payments made net of interest charged. The interest from the unwinding of the lease liability will result in a charge to the income statement over the period of the lease term.

The group remeasures the lease liability (and makes a corresponding adjustment to the related ROU asset) whenever:

A lease agreement is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

### Low value leases

At inception of a lease, the group assesses the value of the leased item. If the value of the item does not exceed the group's threshold, the group recognises payments on a straight-line basis over the lease term.

### Short-term leases

Short-term leases are defined as leases where the lease period is less than or equal to 12 months. The group recognises payments on a straight-line basis over the lease term.

### Right-of-use assets

**Initial recognition and measurement**

The ROU asset is initially measured at cost, comprising the initial lease liability, prepaid lease payments, initial direct costs and restoration costs, less any lease incentives received.

**Subsequent measurement**

Subsequent to initial recognition, the ROU asset will be depreciated on a straight-line basis over the shorter of the lease term and the estimated useful life of the ROU asset.

### Impairment of right-of-use assets

ROU assets are tested for impairment whenever circumstances indicate that the carrying amount may exceed 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.

### Accounting policy – 2019

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.

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 17. Leases continued

### Significant accounting estimates and judgements – 2020

**Incremental borrowing rate**

The group cannot readily determine the interest rate implicit in the lease, therefore it uses the incremental borrowing rate to measure lease liabilities.

The incremental borrowing rate is defined as the rate of interest that the group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of similar value to the ROU asset in a similar economic environment. The relevant incremental borrowing rate will be determined based on average borrowing rates sourced from the group's financial institutions. These 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 8.96% at 31 March 2020.

**Variable lease payments**

Variable lease payments relate to:

- Lease agreements with negotiable extension options which provides for the lease payment to be negotiated at the time of renewal of the lease.
- Lease agreements containing variable payment terms that are linked to turnover from leased stores. These variable payments account for less than 5% of total property lease payments and are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

**Timing of lease payments**

The timing of the lease payments have been taken into account in the discounted cash flow model used to calculate the lease liabilities.

**Lease extension options**

Lease agreements are typically made for fixed periods of one to five years and may include extension options. These options are used to maximise operational flexibility in terms of securing retail premises. The exercising of an extension option may result in renegotiation of existing lease payment terms.

Future lease payments include lease extension options, where the option to exercise the extension is reasonably certain. Management applies their judgement and considers all facts and circumstances in assessing the likelihood of exercising such options, based on strategic importance and profitability of each store. For warehouses, management will assess whether the lease extension option is reasonably certain with reference to the stores which the warehouse services. A lease extension option will automatically be included for storerooms that are linked to the stores it services.

Where it is found to be reasonably certain that the options will be exercised, the fixed and negotiable options will be dealt with in the following manner:

- For fixed extension options (the lease terms for the extension period are defined in the lease agreement), the last lease payment with a fixed escalation rate is used to calculate the future lease payments.
- The negotiable extension option provides for the lease terms to be negotiated at the time of exercising the option. For the purpose of the calculation of the future lease payments, the actual rent at the commencement date of the lease is used for every year in the extension period. Where subsequent material adjustments are agreed, both the lease liability and the ROU asset will be adjusted accordingly.

**Lease components**

Leases may include payments for maintenance activities such as common area maintenance, security and cleaning services or other goods or services transferred to the lessee. The additional services received are treated as non-lease components and expensed to the relevant category.

**Low value leases**

At inception of a lease, the group assesses the value of the leased item. The total amount of low value leases is insignificant at the reporting date. Low value leases comprises of leased IT equipment.

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 17. Leases continued

### Significant accounting estimates and judgements – 2020 continued

**Initial recognition of right-of-use assets**

The ROU asset is initially measured at cost, comprising the initial lease liability, prepaid lease payments, initial direct costs and restoration costs, less any lease incentives received.

**Impairment of right-of-use assets**

ROU assets are tested for impairment whenever circumstances indicate that the carrying amount may exceed its recoverable amount. As the ROU assets are not able to generate their own cash flows independent from other assets, the group considers the CGU to which the ROU asset belongs when testing for impairment. The CGU to which the ROU asset belongs are the individual stores. Each CGU comprise assets typically including the debtors' book, inventory, fixed assets and the ROU asset. The identified CGUs do not include goodwill or intangible assets. Impairment indicators include the profitability of the stores after head office cost allocations as well as significant changes to the economic environment in which the store operates.

For the current reporting period, COVID-19 was deemed to be an impairment indicator, therefore the group performed an impairment test across all stores.

An impairment loss is recognised for the amount by which the CGU's carrying amount exceeds its recoverable amount. The recoverable amount is determined using a value-in-use calculation.

Value-in-use is calculated using a discounted cash flow model whereby expected cash flows for individual stores are determined in accordance with the principles contained within IAS 36. The following assumptions are applied:

- The cash flow projections for each store is assessed based on forecasted information that is informed by past experience of management and the expected performance of the store. The projections at the end of the reporting period is based on management's best estimate of the economic conditions that will exist over the next three years.
- An average sales growth of 5.5% over the three-year period was applied. The forecast takes into account the impact of the COVID-19 lockdown regulations in terms of the expected deterioration in sales growth over the next year as well as the subsequent recovery over the following two years. A terminal value growth rate of 4% was applied to stores expected to remain open post the expiry of the existing lease term.
- Collection rates were determined with reference to the previous three years' average collections and debtors' values. An appropriate adjustment was then applied on the three-year average to take the impact of COVID-19 into account.
- The growth in the operating expenses approximate an inflationary increase.
- Lease payments included in the lease liability are excluded from the value-in-use calculation.
- The weighted average cost of capital ("WACC") adjusted for specific risks of the underlying assets, used in the value-in-use calculation, was 19%.

Impairment is allocated to the assets included in the CGU on a *pro rata* basis, based on their carrying value as a proportion of the total carrying value of the CGU.

Based on the above, the impairment charge for the year was calculated at R26.6 million.

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 18. Property, plant and equipment

| | Land and buildings Rm | Vehicles Rm | Furniture, fixtures and equipment Rm | Total Rm |
|---|---|---|---|---|
| **As at 31 March 2020** | | | | |
| Opening 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)** |
| Additions | **13.4** | **35.4** | **50.0** | **98.8** |
| Disposals | **–** | **(5.2)** | **(2.0)** | **(7.2)** |
| Depreciation | **(1.3)** | **(28.7)** | **(36.1)** | **(66.1)** |
| Closing net carrying value | **123.8** | **105.7** | **94.9** | **324.4** |
| Cost | **141.2** | **288.1** | **288.9** | **718.2** |
| Accumulated depreciation | **(17.4)** | **(182.4)** | **(194.0)** | **(393.8)** |
| As at 31 March 2019 | | | | |
| Opening 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) |
| 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 19.2) | – | – | (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) |

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

### Accounting policy

Property, plant and equipment ("PPE") 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.

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 18. Property, plant and equipment continued

### 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: | | | | |
| **As at March 2020** | **–** | **15.3** | **105.5** | **120.8** |
| As at March 2019 | – | 12.0 | 235.1 | 247.1 |

## 19. Intangible assets

### 19.1 Trademarks

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Opening net carrying value | **111.3** | 117.8 |
| Cost | **131.2** | 131.2 |
| Accumulated amortisation | **(19.9)** | (13.4) |
| Additions | **–** | – |
| Disposals | **–** | – |
| Amortisation | **(6.5)** | (6.5) |
| Closing net carrying value | **104.8** | 111.3 |
| Cost | **131.2** | 131.2 |
| Accumulated amortisation | **(26.4)** | (19.9) |

### 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.

### Significant accounting estimates and judgements

The estimated useful life of trademarks is 20 years.

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 19. Intangible assets continued

### 19.2 Software

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Opening net carrying value | **11.0** | – |
| Cost | **49.9** | – |
| Accumulated amortisation | **(38.9)** | – |
| Transferred from PPE (refer note 18) | **–** | 9.3 |
| Cost | **–** | 42.6 |
| Accumulated amortisation | **–** | (33.3) |
| Additions | **9.3** | 7.3 |
| Disposals | **–** | – |
| Amortisation | **(4.5)** | (5.6) |
| Closing net carrying value | **15.8** | 11.0 |
| Cost | **59.2** | 49.9 |
| Accumulated amortisation | **(43.4)** | (38.9) |

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

#### Accounting policy

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

#### Significant accounting estimates and judgements

The estimated useful life of software is three years.

## 20. Goodwill

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Opening net carrying value | **187.6** | 187.6 |
| Additions | **–** | – |
| Closing net carrying value | **187.6** | 187.6 |
| Cost | **187.6** | 187.6 |
| Accumulated impairment | **–** | – |

#### 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.

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## 20. Goodwill continued

### Significant accounting estimates and judgements

The test for impairment of goodwill was performed by external valuers for the current and prior years. The recoverable amount of goodwill is the higher of fair value less costs to sell and value-in-use. In the current year, the valuer used the fair value less costs to sell (2019: value-in-use method). In order to provide some degree of comparability, the fair value less costs to sell methodology was applied to two scenarios, the first alternative being that the enterprise value was determined on the basis of existing stores and the second alternative which will take into consideration future store expansion as well. The reason for the two scenarios is that the value-in-use calculation used in the prior year does not take into account any store expansion.

**Scenario 1: Valuation based on Existing Stores**

The valuation to determine the recoverable amount of goodwill was performed at Level 3 (in accordance with IFRS 13) which means that the valuation was derived using the discounted cash flow method ("DCF method"). The assumptions underlying the DCF method are as follows:

- Expected cash flows were based on existing stores. No account of further store expansion in the future has been made.
- Average sales growth on existing stores was 8.3% (2019: 6%) for the next five years and 5% (2019: 5.5%) on the terminal value.
- Earnings before interest, tax, depreciation and amortisation ("EBITDA") margin is in line with the three-year historic average margin.
- Weighted average cost of capital ("WACC") was calculated at 17.7% (2019: 14.4%).
- A further marketability discount of 5% (2019: 0%) was applied to arrive at the enterprise value.

The recoverable amount of goodwill was assessed as follows:

**2020**

| | **WACC–1% R'000** | **WACC R'000** | **WACC+1% R'000** |
|---|---|---|---|
| Enterprise value | **345 082** | **318 232** | **295 310** |
| Operating assets other than goodwill | **(130 556)** | **(130 556)** | **(130 556)** |
| Recoverable amount | **214 526** | **187 676** | **164 754** |

No impairment was required as the recoverable amount was R187.7 million.

2019

| | Low WACC (13.8%) R'000 | Mid WACC (14.4%) R'000 | High WACC (15.0%) R'000 |
|---|---|---|---|
| Enterprise value | 346 353 | 340 770 | 335 313 |
| Operating assets other than goodwill | (130 367) | (130 367) | (130 367) |
| Recoverable amount | 215 986 | 210 403 | 204 946 |

No impairment was required as the recoverable amount was R210.4 million.

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 20. Goodwill continued

### Significant accounting estimates and judgements continued

**Scenario 2: Valuation based on Existing and New Store Expansion (2020 only)**

As part of the rationale for the acquisition was that the UFO brand and business model is scalable and offers an opportunity to extend the UFO store footprint across South Africa and into neighbouring Southern African countries. Consequently, management has plans to continue to grow the UFO store footprint and prepared a five-year forecast including the planned expansion of the store footprint. Therefore, the valuation of the enterprise should include new store openings.

Using the same methodology as in scenario 1, this valuation has the following key assumptions:

- Sales growth was based on existing stores and planned store expansions with a 5% growth used in the terminal value.
- EBITDA margin is in line with the three-year historic average margin.
- Weighted average cost of capital ("WACC") was calculated at 19.3%.
- A further marketability discount of 5% was applied to arrive at the enterprise value.

The recoverable amount of goodwill under this scenario was assessed as follows:

| | WACC–1% R'000 | WACC R'000 | WACC+1% R'000 |
|---|---|---|---|
| Enterprise value | **401 585** | **371 583** | **345 571** |
| Operating assets other than goodwill | **(130 556)** | **(130 556)** | **(130 556)** |
| Recoverable amount | **271 029** | **241 027** | **215 015** |

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 21. 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 Lewis Employee Incentive Scheme 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 hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

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

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

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

**Currency risk – Net investment in foreign subsidiaries (FCTR)**

The currency exposure is limited to the net investment in Botswana of R267.2 million (2019: R195.8 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.

# Lewis Group Limited: Consolidated financial statements

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## 21. Group consolidation continued

**Currency risk – Net investment in foreign subsidiaries (FCTR)** continued

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):

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Currency appreciates by 10% | **23.4** | 26.7 |
| Currency depreciates by 10% | **(23.4)** | (26.7) |

## 22. Interest in subsidiary companies

| | Nature of business | 2020 Carrying value of subsidiaries Rm | 2020 Percentage holding | 2019 Carrying value of subsidiaries Rm | 2019 Percentage holding |
|---|---|---|---|---|---|
| **Directly held** | | | | | |
| Lewis Stores (Pty) Ltd | F | **2 800.0** | **100%** | 2 800.0 | 100% |
| **Indirectly held** | | | | | |
| **Incorporated in South Africa** | | | | | |
| Monarch Insurance Company Ltd | I | | | | |
| Kingtimm (Pty) Ltd | D | | | | |
| Lifestyle Living (Pty) Ltd | D | | | | |
| United Furniture Outlets (Pty) Ltd[1] | F | | | | |
| **Incorporated in Botswana** | | | | | |
| Lewis Stores (Botswana) (Pty) Ltd | F | | | | |
| Lewis Insurance Services (Botswana) (Pty) Ltd | D/M | | | | |
| Lewis Management Services (Botswana) (Pty) Ltd | D | | | | |
| **Incorporated in Eswatini** | | | | | |
| Lewis Stores (Eswatini) (Pty) Ltd | F | | | | |
| **Incorporated in Namibia** | | | | | |
| Lewis Stores (Namibia) (Pty) Ltd | F | | | | |
| **Incorporated in Lesotho** | | | | | |
| Lewis Stores (Lesotho) (Pty) Ltd | F | | | | |
| **Cost of subsidiaries** | | **2 800.0** | | 2 800.0 | |
| **Capital contribution in respect of share-based payments** | | **63.2** | | 55.1 | |
| **Loans to/(from) subsidiaries:** | | | | | |
| Amounts due to subsidiary | | **(5.5)** | | (4.1) | |
| **Interest in subsidiaries** | | **2 857.7** | | 2 851.0 | |

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

*(1) Lewis Stores has restructured its investment in UFO through a consolidation of operations to obtain a number of business efficiencies. The restructure has been effected through a merger of the UFO business into Lewis Stores (Pty) Ltd in terms of section 113 and 115 of the Companies Act on 31 March 2020. The implication is that the UFO business has become a division of Lewis Stores (Pty) Ltd and the UFO company, which is dormant after the merger, will be deregistered. This restructure has no impact on the group's results and financial position.*

# Lewis Group Limited: Consolidated financial statements

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## 23. Other notes

### 23.1 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.

### 23.2 New standards and interpretations not yet effective

#### 23.2.1 IFRS 17 Insurance Contracts

IFRS 17 (Insurance Contracts) was issued as a replacement for IFRS 4. The standard will apply to the group for the year ending 31 March 2024.

The standard requires a current measurement model where estimates are re-measured in each reporting period.

Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows;
- an explicit risk adjustment; and
- a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income.

Management have not yet performed an assessment of the potential impact of the implementation of this new standard.

#### 23.2.2 COVID-19-related Rent Concessions – Amendments to IFRS 16

As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms. In May 2020, the IASB made an amendment to IFRS 16 Leases which provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted.

Management have not yet performed an assessment of the potential impact of the amendments to IFRS 16 and whether such rent concessions will apply to the group.

# Lewis Group Limited: Consolidated financial statements

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## 23. Other notes continued

### 23.3 Other standards and interpretations not yet effective

The IASB, under the annual Improvements Project, issued amendments in December 2018 and December 2019 to IFRS standards for years commencing on or after 1 January 2020.

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

| | |
|---|---|
| Amendment to IAS 1, "Presentation of financial statements" and IAS 8, "Accounting policies, changes in accounting estimates and errors" on the definition of material. | These amendments to IAS 1 and IAS 8 and consequential amendments to other IFRSs:<br>• use a consistent definition of materiality through IFRS standards and the Conceptual Framework for Financial Reporting;<br>• clarify the explanation of the definition of material; and<br>• incorporate some of the guidance in IAS 1 about immaterial information. |
| Amendment to IFRS 3, "Business combinations" on the definition of a "business" | This amendment revises the definition of a business. 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 are 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. |

### 23.4 Other income statement disclosures

| | 2020 Rm | 2019 Rm |
|---|---|---|
| **Service fees received on accounts receivable (refer note 9.1)** | **349.5** | 320.0 |
| **Insurance claims expenses** | **152.2** | 153.5 |
| **Fees payable:** | | |
| Investment management fee – insurance investments | **1.7** | 1.7 |
| Outsourcing of IT function | **103.7** | 92.2 |
| | **105.4** | 93.9 |
| **Auditors' remuneration** | | |
| Audit fees – current year | **4.6** | 4.6 |
| Other services – Audit related | **0.3** | 1.5 |
| – Non-audit related | **0.5** | 0.1 |
| | **5.4** | 6.2 |

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 24. Post balance sheet events – COVID-19 pandemic

### 24.1 COVID-19 Lockdown and its impact on the group's trading

On 11 March 2020, the World Health Organization formally declared COVID-19 a pandemic. Government restrictions were imposed in South Africa on the 27th of March 2020, and shortly afterwards in other territories of the group, in an attempt to curb infection rates and the inevitable spread of COVID-19. This included nationwide lockdowns that temporarily restricted trading across the group.

The company considers information obtained subsequent to the reporting date, in relation to known or knowable events and expected eventualities identified as at 31 March 2020, as adjusting subsequent events. With regards to financial reporting impacts associated with COVID-19, the key principle is that COVID-19 conditions existed at 31 March 2020. Therefore, COVID-19 related events that arise in the post balance sheet period, that provide additional information in relation to assets and liabilities in existence at 31 March 2020, have been considered adjusting subsequent events. New events which occur after 31 March 2020, which do not relate to existing assets and liabilities related to COVID-19 at the reporting date, are considered to be non-adjusting subsequent events.

Any potential adjusting COVID-19 related impacts are therefore considered to the extent that forward-looking information is used in significant estimates and judgements.

In the subsequent event period, trading was significantly disrupted under the lockdown regulations with all stores being closed for April 2020. The slight easing of restrictions during the 2nd week of May 2020 saw some stores in the African territories being allowed to trade under strict regulation and on the 18th of May 2020, sales through electronic communication channels were allowed in South Africa. On the 1st of June 2020, all South African stores were allowed to trade with a full merchandise offering under strict compliance of COVID-19 safety protocols.

### 24.2 Impact on Financial Results for the year ended 31 March 2020

The following table shows the impact on earnings and headline earnings of the group as a result of COVID-19 lockdown and regulations:

| | Impact on earnings Rm | Impact on headline earnings Rm |
|---|---|---|
| **Impact on operating results:** | | |
| Increase in the impairment provision as a result of lost collections due to store closures in March | (123.2) | (123.2) |
| **Impact on forward-looking information:** | | |
| IFRS 9 – Economic overlay for debtors' impairment (refer note 24.3) | (189.5) | (189.5) |
| IFRS 16/IAS 36 – Impairment of right-of-use asset (refer note 24.3) | (26.6) | – |
| Impact before taxation | (339.3) | (312.7) |
| Taxation | 96.0 | 89.2 |
| Impact after taxation | (243.3) | (223.5) |

### 24.3 Judgements and estimates applied in the current financial results

Preparation of financial statements 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 potential impact of COVID-19 on significant areas of accounting estimates and judgements of the group are listed below. This has been considered to the extent that forward-looking information has been used in the accounting estimates and judgements. This assessment was made based on the extent of information that was available at the group's reporting date.

**IFRS 9 Impairment of Trade receivables**

Management have performed an assessment of the potential impact of the COVID-19 pandemic on the group's expected credit losses (ECL) on trade receivables outstanding at year end and have added an additional overlay to the impairment provision.

Refer to note 4 for the key judgements and estimates applied in determining the ECL at year end.

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 24. Post balance sheet events – COVID-19 pandemic continued

### 24.3 Judgements and estimates applied in the current financial results continued

**Impairment of right-of-use assets (ROU)**

The group has assessed all right-of-use assets for indications of impairment taking the anticipated impact of COVID-19 into account. The majority of the group's ROU assets do not generate largely independent cash flows, therefore the cash generating unit to which these assets belong, being individual stores, were tested for impairment.

Refer to note 17 for details on the assumptions applied in determining the recoverable amount of the assets.

**Goodwill**

The recoverable amount of United Furniture Outlets ("UFO") was calculated using the fair value less costs of disposal valuation technique to assess the goodwill for impairment. A specific COVID-19 risk premium was included in the calculation of the recoverable amount.

**Retirement benefits**

A special valuation was performed as at 31 March 2020 for the defined benefit retirement plans and post-retirement medical aid to assess the potential impact of the COVID-19 pandemic.

Refer to note 14.5 for the effect of this valuation on the balance sheet and other comprehensive income.

**Insurance liabilities**

The impact of COVID-19 on the insurance liabilities have been considered up to the date of the approval of the financial statements and assessed to be immaterial. Management will continue to monitor the potential impact on the insurance liabilities with respect to loss of employment claims.

### 24.4 Subsequent impact on the group

While the COVID-19 lockdown had a material impact on the group's trading performance in April and May, the resilience of the group's business model was evident during this period. The group's strong balance sheet ensured that the group did not need to access any borrowings during the lockdown period, despite significant decline in cash flow when stores were closed or trading under restrictions. There was a heightened focus on cash management during this period.

At the date of the approval of the financial statements, the group had repaid all of its short-term borrowings and therefore has access to sufficient unsecured short- term facilities. The group is targeting gearing which includes the lease liabilities in terms of IFRS 16, to be below 15%. The board has reviewed the cashflow forecast for the next 12 months and is of the opinion that the group has more than sufficient liquidity to adequately support its working capital requirements and consequently, is satisfied of the group's ability to continue as a going concern for the foreseeable future.

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 25. Adoption of IFRS 9 and IFRS 15 – 2019

### 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 2019 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 was 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 of the 2019 consolidated annual financial statements.

### Interest income

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

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

### Adoption of IFRS 15

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

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

### Refund obligation

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

The adjustment to opening retained earnings as at 1 April 2018 was 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) |

For full details of the adoption of IFRS 15 refer note 22 of the 2019 consolidated annual financial statements.

# Lewis Group Limited: Consolidated financial statements

for the year ended 31 March 2020

## 25. Adoption of IFRS 9 and IFRS 15 – 2019 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<br>Rm |
|---|---|
| Increase in trade receivables | 131.1 |
| Decrease in trade payables | 37.8 |
| Payments in advance | 168.9 |

# Lewis Group Limited:
# Company financial statements

## Company statement of comprehensive income

for the year ended 31 March 2020

| | Notes | 2020 Rm | 2019 Rm |
|---|---|---|---|
| **Investment income** | 2 | **312.5** | 307.0 |
| **Operating costs** | | **(10.1)** | (9.8) |
| **Profit before taxation** | 3 | **302.4** | 297.2 |
| Taxation | 4 | **(0.5)** | (0.6) |
| **Net profit and comprehensive income attributable to ordinary shareholders** | | **301.9** | 296.6 |

## Company balance sheet

at 31 March 2020

| | Notes | 2020 Rm | 2019 Rm |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Interest in subsidiaries | 5 | **2 863.2** | 2 855.1 |
| **Current assets** | | | |
| Deposits at bank | 8 | **21.9** | 18.2 |
| **Total assets** | | **2 885.1** | 2 873.3 |
| **Equity and liabilities** | | | |
| **Capital and reserves** | | | |
| Share capital and premium | 6 | **2 030.5** | 2 132.2 |
| Share-based payments reserve | | **63.2** | 55.1 |
| Retained earnings | | **783.9** | 680.1 |
| | | **2 877.6** | 2 867.4 |
| **Current liabilities** | | | |
| Trade and other payables | | **2.0** | 1.8 |
| Amounts due to subsidiary | | **5.5** | 4.1 |
| | | **7.5** | 5.9 |
| **Total equity and liabilities** | | **2 885.1** | 2 873.3 |

# Lewis Group Limited:
# Company financial statements

## Company statement of changes in equity

for the year ended 31 March 2020

| | Share and capital and premium Rm | Share-based payments reserve Rm | Retained earnings Rm | Total Rm |
|---|---|---|---|---|
| **Balance as at 1 April 2018** | 2 548.1 | 39.2 | 234.6 | 2 821.9 |
| Net profit attributable to ordinary shareholders | | | 296.6 | 296.6 |
| Dividends paid | | | (168.0) | (168.0) |
| Capital contribution in respect of share-based payments | | 15.9 | | 15.9 |
| Share repurchase | (99.0) | | | (99.0) |
| Dividend *in specie* | (316.9) | | 316.9 | – |
| **Balance as at 31 March 2019** | 2 132.2 | 55.1 | 680.1 | 2 867.4 |
| Net profit attributable to ordinary shareholders | | | **301.9** | **301.9** |
| Dividends paid | | | **(198.1)** | **(198.1)** |
| Capital contribution in respect of share-based payments | | **8.1** | | **8.1** |
| Share repurchase | **(101.7)** | | | **(101.7)** |
| **Balance as at 31 March 2020** | **2 030.5** | **63.2** | **783.9** | **2 877.6** |

## Company cash flow statement

for the year ended 31 March 2020

| | Notes | 2020 Rm | 2019 Rm |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Cash utilised in operations | 7 | **(9.9)** | (9.5) |
| Dividends received | | **310.7** | 304.9 |
| Interest received | | **1.8** | 2.1 |
| Taxation paid | | **(0.5)** | – |
| | | **302.1** | 297.5 |
| **Cash flow from financing activities** | | | |
| Dividends paid | | **(198.1)** | (168.0) |
| Proceeds from/(payments to) loan to subsidiary | | **1.4** | (48.0) |
| Share repurchase | | **(101.7)** | (99.0) |
| | | **(298.4)** | (315.0) |
| **Net increase/(decrease) in cash and cash equivalents** | | **3.7** | (17.5) |
| Cash and cash equivalents at the beginning of the year | | **18.2** | 35.7 |
| **Cash and cash equivalents at the end of the year** | | **21.9** | 18.2 |

# Lewis Group Limited: Company financial statements

# Notes to the company financial statements

for the year ended 31 March 2020

## 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 in the Consolidated Financial Statements:

| | Note reference |
|---|---|
| Taxation | 15 |
| Interest in subsidiaries | 21 |
| Borrowings | 6.1 |
| Share capital and premium | 13.4 |
| Share-based payments | 14.3 |
| The company holds the following financial instruments: | **Note reference** |
| Deposits at bank | 8 |
| Trade and other payables | |
| Amounts due to subsidiary | |

## 2. Investment income

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Dividends received from subsidiary – Lewis Stores Proprietary Limited | **310.7** | 304.9 |
| Interest received from subsidiary – Lewis Stores Proprietary Limited | **–** | – |
| Interest received – Banks | **1.8** | 2.1 |
| | **312.5** | 307.0 |

### Accounting policy

**Investment income**

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.

## 3. Operating profit

| | 2020 R'000 | 2019 R'000 |
|---|---|---|
| Stated after: | | |
| Audit fees – current year | **88** | 80 |
| Directors' fees (refer note 14.2 to the group financial statements) | **5 164** | 4 563 |

## 4. Taxation

| | 2020 Rm | 2019 Rm |
|---|---|---|
| Taxation | **0.5** | 0.6 |
| The rate of taxation on profit is reconciled as follows: | | |
| Profit before taxation | **302.4** | 297.2 |
| Taxation calculated at a tax rate of 28% (2019: 28%) | **84.7** | 83.2 |
| Exempt income | **(87.0)** | (85.3) |
| Disallowed expenses | **2.8** | 2.7 |
| Taxation per income statement | **0.5** | 0.6 |

# Lewis Group Limited: Company financial statements

## Notes to the company financial statements continued

for the year ended 31 March 2020

| | 2020 Rm | 2019 Rm |
|---|---|---|
| **5. Interest in subsidiaries** | | |
| Shares at cost | **2 800.0** | 2 800.0 |
| Capital contribution for share-based payments | **63.2** | 55.1 |
| | **2 863.2** | 2 855.1 |

Full details are provided in note 22 in the consolidated annual financial statements.

| | 2020 Rm | 2019 Rm |
|---|---|---|
| **6. Share capital and premium** | | |
| **Authorised** | | |
| 150 000 000 ordinary shares of 1 cent each | **1.5** | 1.5 |
| **Issued** | | |
| 76 899 090 (2019: 80 210 076) ordinary shares of 1 cent each | **1.0** | 1.0 |
| Share premium | **2 029.5** | 2 131.2 |
| Total share capital and premium | **2 030.5** | 2 132.2 |

The dividend *in specie* in the statement of changes in equity of the 2019 financial year relates to the distribution of the company's own shares as a dividend from its subsidiary entity. This was 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.

| | 2020 Rm | 2019 Rm |
|---|---|---|
| **7. Cash utilised in operations** | | |
| Profit before taxation | **302.4** | 297.2 |
| Dividends received | **(310.7)** | (304.9) |
| Interest received – Banks | **(1.8)** | (2.1) |
| Increase in trade and other payables | **0.2** | 0.3 |
| | **(9.9)** | (9.5) |
| **8. Deposits at bank** | | |
| At amortised cost | **21.9** | 18.2 |

**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 | 2020 Long-term | 2020 Short-term | 2019 Long-term | 2019 Short-term | 2020 Rm | 2019 Rm |
|---|---|---|---|---|---|---|
| RMB | Ba1 | NP | Baa3 | P-3 | **21.9** | 18.2 |
| Total | | | | | **21.9** | 18.2 |

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.

# Lewis Group Limited: Company financial statements

# Notes to the company financial statements continued

for the year ended 31 March 2020

## 9. Guarantees

The company guarantees banking facilities to the value of R1 150 million (2019: R1 500 million) for its subsidiaries at various financial institutions. No expected credit loss was recognised on these guarantees.

The guarantees have been disclosed as part of the company's liquidity risk below.

**Credit risk**

While the maximum credit risk is the full extent of the facilities, the extent of the exposure at year end is R922.1 million. 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.

**Maturity profile of financial liabilities**

The maturity profiles of undiscounted financial liabilities are as follows:

| | 0 – 12 months Rm | 1 – 5 years Rm | >5 years Rm | Total Rm |
|---|---|---|---|---|
| **2020** | | | | |
| Trade and other payables | **(2.0)** | **–** | **–** | **(2.0)** |
| Amounts due to subsidiary | **(5.5)** | **–** | **–** | **(5.5)** |
| Financial guarantees[1] | **(1 150.0)** | **–** | **–** | **(1 150.0)** |
| | **(1 157.5)** | **–** | **–** | **(1 157.5)** |
| 2019 | | | | |
| Trade and other payables | (1.8) | – | – | (1.8) |
| Amounts due to subsidiary | (4.1) | – | – | (4.1) |
| Financial guarantees[1] | (1 500.0) | – | – | (1 500.0) |
| | (1 505.9) | – | – | (1 505.9) |

*(1) This represents the maximum potential exposure to credit risk under financial guarantee contracts.*

# Lewis Group Limited:
# Company financial statements

## Shareholders' information

as at 31 March 2020

**Shareholders' spread as at 31 March 2020:**

| | Number of shareholders Total | % | Number of shares Total | % |
|---|---|---|---|---|
| 1 – 1 000 shares | 995 | 57.78 | 329 043 | 0.43 |
| 1 001 – 10 000 shares | 465 | 27.00 | 1 554 228 | 2.02 |
| 10 001 – 100 000 shares | 179 | 10.39 | 6 416 105 | 8.34 |
| 100 001 – 1 000 000 shares | 68 | 3.95 | 20 627 099 | 26.82 |
| 1 000 001 shares and over | 15 | 0.87 | 47 972 615 | 62.38 |
| Total | 1 722 | 100.00 | 76 899 090 | 100.00 |

**Distribution of shareholders as at 31 March 2020:**

| | Number of shareholders Total | % | Number of shares Total | % |
|---|---|---|---|---|
| ***Public:*** | 1 708 | 99.19 | 75 455 973 | 98.13 |
| Unit Trusts/Mutual Funds | | | 38 046 463 | 49.48 |
| Pension Funds | | | 16 279 478 | 21.17 |
| Other | | | 21 130 032 | 27.48 |
| ***Non-public:*** | 14 | 0.81 | 1 443 117 | 1.87 |
| Lewis Employee Incentive Scheme Trust | 1 | 0.06 | 26 437 | 0.03 |
| Directors: | | | | |
| Lewis Group Limited | | | | |
| Direct | 3 | 0.17 | 526 256 | 0.68 |
| Indirect | 3 | 0.17 | 200 995 | 0.26 |
| Lewis Stores Proprietary Limited | | | | |
| Direct | 3 | 0.17 | 506 941 | 0.66 |
| Indirect | 4 | 0.23 | 182 488 | 0.24 |
| | 1 722 | 100.00 | 76 899 090 | 100.00 |

# Lewis Group Limited: Company financial statements

## Shareholders' information continued

as at 31 March 2020

**Major shareholdings as at 31 March 2020:**

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 2020:

| | Number of shares Total | % |
|---|---|---|
| ***Beneficial shareholders:*** | | |
| Government Employees Pension Fund (SA) | **7 890 768** | **10.26** |
| Trimark Global Endeavour Fund (Canada) | **7 454 763** | **9.69** |
| Trimark Global Balanced Fund (Canada) | **4 047 392** | **5.26** |
| ***By fund manager:*** | | |
| Invesco Limited (Canada) | **17 176 207** | **22.34** |
| Public Investment Corporation (SA) | **5 822 060** | **7.57** |
| Coronation Fund Managers (SA) | **4 791 889** | **6.23** |
| LSV Asset Management (US) | **4 263 397** | **5.54** |
| Stonehage Trust Holdings (Jersey) Ltd | **4 235 711** | **5.51** |
| Dimensional Fund Advisors (US) | **4 197 212** | **5.46** |
| Ninety One (SA) | **3 925 934** | **5.11** |

| Geographical analysis of shareholders: | % |
|---|---|
| ***Beneficial shareholders:*** | |
| South Africa | **45.77** |
| United States of America and Canada | **37.07** |
| United Kingdom | **0.72** |
| Europe | **5.68** |
| Rest of World | **10.76** |
| | **100.00** |
| ***By fund manager:*** | |
| South Africa | **42.90** |
| United States of America and Canada | **39.07** |
| United Kingdom | **4.02** |
| Europe | **8.52** |
| Rest of World | **5.49** |
| | **100.00** |

# Appendix A – Audit committee profiles

## Duncan Westcott (70)

BSc Economics, FCA (UK), CA(SA)
**Independent non-executive director**

**Appointed as director on 1 December 2017**

Other directorships include: Monarch Insurance Company Limited, Standard Bank Mauritius, Balwin Properties.

Chairperson of the audit and risk committees; Directorships Lewis Group, Balwin Properties and Standard Bank Mauritius.

**Expertise and experience:** Accounting, financial and general business management. The majority of his full time career was spent in the auditing profession where he fulfilled a number of leadership roles in the Human resources and corporate finance functions in addition to his client facing responsibilities.

**Specific contributions to the board:** Duncan is an experienced part time non-executive director on the board and acts as the chairman of the audit and risk committees. In addition, he is currently chairman of the Standard Bank Mauritius board. The group benefits from his training and wide-ranging experience in the retail, construction and financial services industries.

## Daphne Motsepe (63)

BCompt, MBA
**Independent non-executive director**
Member of the audit, risk, remuneration, nominations, and social, ethics and transformation committees

**Appointed as director on 1 June 2017**

**Directorships:** Kapela Holdings (Pty) Ltd, NEC XON Holdings (Pty) Ltd, ZENSAR (South Africa) (Pty) Ltd, SPX Flow Technology (Pty) Ltd, (CFAO Motors SA (Pty) Ltd (previously Unitrans), Toyota Tsusho Africa (Pty) Ltd. Trustee of Alexander Forbes Community Trust.

**Experience and expertise:** Daphne is an experienced banking executive and company director. She was formerly chief executive of Absa card and unsecured lending at Absa Bank and also served as managing director of Postbank. She has previously served as non-executive director on the boards of Investec Bank, Highveld Steel and Vanadium, Edcon, Mercantile Bank, Woolworths Financial Services, Rand Mutual Assurance and Thebe Investment Corporation. Her skills combine strategic, business and financial skills.

**Specific Contribution to the board:** Daphne's board experience includes serving as chairperson of remuneration as well as social, ethics and transformation committees of other boards and serving as a member of audit, risk committees as well as nominations/directors affairs committee. Daphne was appointed to the audit committee on 18 November 2019.

## Tapiwa Njikizana (44)

CA(SA) JSE Registered IFRS Advisor
**Independent non-executive director**
(Zimbabwean)

Member of the Audit and Risk Committees

**Appointed as director on 19 August 2019**

**Directorships:** Lewis Group Limited, W.consulting SA (Pty) Ltd

**Experience and expertise:** Tapiwa is an executive director at W.consulting SA (Pty) Ltd. He has previously served as a non-executive director on the board of Iliad Africa Limited and Mercantile Bank Holdings Limited.

He was recognised for his contribution to the consulting industry receiving the "*Top Consulting Professional*" at the *Sanlam South African Professional Services Awards – 2018.*

Tapiwa has held roles in leading industry bodies and committees including as a member or the Accounting Practice Committee of SAICA, and as a member of the Financial Reporting Investigation Panel (formerly, GAAP Monitoring Panel) of the JSE.

**Specific Contribution to the board:** Tapiwa is an experienced non-executive director with expertise in the financial services sector including experience chairing audit and technology committees for other entities, as well as experience on the remuneration and nomination committees of the Company.

# Appendix B – Audit committee meeting attendance

## Board meetings

The number of audit committee meetings held during the year was affected by the national lockdown declared in terms of the Disaster Management Act, 2002 by the government on 27 March 2020.

| | Audit committee meeting attendance |
|---|---|
| **Number of Meetings** | 3 |
| **Non-executive directors** | |
| H Saven[1] | 3 |
| F Abrahams[2] | 3 |
| A Bodasing[2] | 3 |
| T Njikizana[3] | 1 |
| D Motsepe[4] | 3 |
| A Smart[5] | 3 |
| D Westcott[6] | 3 |
| **Executive directors** | |
| J Enslin[2] | 3 |
| J Bestbier[2] | 3 |

[1] *Retired as a member on 25 October 2019 and thereafter attended as an invitee*

[2] *Attended as an invitee throughout the year*

[3] *Appointed as a member on 19 August 2019*

[4] *Attended as an invitee until appointment as a member on 18 November 2019*

[5] *Resigned as a member on 25 October 2019*

[6] *Attended as a member throughout the year*

# Lewis Group Limited Corporate Information

| | |
|---|---|
| **Non-executive directors:** | Hilton Saven (independent non-executive chairman),<br>Prof. Fatima Abrahams, Adheera Bodasing,<br>Daphne Motsepe, Tapiwa Njikizana, Duncan Westcott |
| **Executive directors:** | Johan Enslin (Chief Executive Officer)<br>Jacques Bestbier (Chief Financial Officer) |
| **Company secretary:** | Ntokozo Makomba |
| **Transfer secretaries:** | Computershare Investor Services (Pty) Ltd; Private Bag X9000, Saxonwold, 2132,<br>South Africa. Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 South Africa. |
| **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:** | ZAE 000058236 |
| **Bond code:** | LEWI |

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