

ANNUAL FINANCIAL STATEMENTS

20 22

FOR THE YEAR ENDED 31 MARCH 2022



Lewis
Group Ltd

CONTENTS

STATUTORY INFORMATION 01

Company information	1
Directors' responsibility statement	2
Chief executive officer and Chief financial officer's responsibility statement	3
Company secretary certificate	3
Audit committee report	4
Directors' report	8
Independent auditor's report	11

PRIMARY STATEMENTS 02

Consolidated income statement	17
Consolidated statement of comprehensive income	18
Consolidated balance sheet	19
Consolidated statement of changes in equity	20
Consolidated cash flow statement	21

NOTES TO ANNUAL FINANCIAL STATEMENTS 03

1.1 Basis of preparation	22
1.2 Significant accounting estimates and judgements	22
2. Risk management	23
3. Financial instruments	24
4. Trade, other receivables and debtor costs	29
5. Insurance	38
6. Revenue	44
7. Gross profit and inventories	46
8. Reportable segments	47
9. Leases	49
10. Property, plant and equipment	53
11. Intangible assets	54
12. Goodwill	55
13. Depreciation, amortisation and impairment	57
14. Borrowings, cash and net finance costs	58
15. Capital management	62
16. Trade and other payables	66
17. Payments in advance	67
18. Directors and employees	67
19. Taxation	81
20. Cash flow from operations	83
21. Impact of civil unrest in South Africa	84
22. Group consolidation	85
23. Interest in subsidiary companies	86
24. Other notes	87

COMPANY ANNUAL FINANCIAL STATEMENTS 04

Company statement of comprehensive income	89
Company balance sheet	89
Company statement of changes in equity	90
Company cash flow statement	90
Notes to the company annual financial statements	91
Shareholders' information	94

APPENDICES TO THE AUDIT COMMITTEE REPORT 05

Appendix A - Audit committee profiles	96
Appendix B - Audit committee meeting attendance	97

COMPANY INFORMATION

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 principal 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 light grey background.

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



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 ("the Board") 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 has reviewed the business of the group together with budget and cash flows for the year to 31 March 2023 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 annual financial statements.

PricewaterhouseCoopers Inc. ("PwC"), as external auditors, have examined the annual financial statements and their report appears on pages 11 to 16.

The annual financial statements of the group and the company for the year ended 31 March 2022, which appear on pages 17 to 95 have been approved by the Board and signed on their behalf by:



H Saven
Chairman



J Enslin
Chief executive officer



J Bestbier
Chief financial officer

Cape Town
26 May 2022

CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

In line with paragraph 3.84(k) of the JSE Limited ("JSE") Listings Requirements, the Chief executive officer and Chief financial officer hereby confirm that:

- the annual financial statements set out on pages 17 to 95, fairly present in all material respects the financial position, financial performance and cash flows of the issuer in terms of IFRS;
- no facts have been omitted, or untrue statements made that would make the annual financial statements false or misleading;
- internal financial controls have been put in place to ensure that material information relating to the issuer and its consolidated subsidiaries have been provided to effectively prepare the annual financial statements of the issuer; and
- the internal financial controls are adequate and effective and can be relied upon in compiling the annual financial statements, having fulfilled our role and function within the combined assurance model pursuant to principle 15 of the King IV Report on Corporate Governance for South Africa, 2016. Where we are not satisfied, we have disclosed to the Audit committee and the auditors the deficiencies in design and operational effectiveness of the internal financial controls and any fraud that involves directors, and have taken the necessary remedial action.



J Enslin
Chief executive officer

26 May 2022



J Bestbier
Chief financial officer

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 2022, 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.



R Lepart
Acting company secretary

26 May 2022

AUDIT COMMITTEE REPORT

for the year ended 31 March 2022

The Audit committee (“the committee”) has pleasure in submitting its report for the year-ended 31 March 2022 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 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.

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 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:

Daphne Motsepe (Chairperson)

Tapiwa Njikizana

Prof. Fatima Abrahams

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

Duncan Westcott, previous chairman of the committee, passed away on 19 August 2021.

His passing necessitated changes to the committee, with Daphne Motsepe being appointed as Chairperson of the committee, and Prof. Fatima Abrahams being appointed as a member of the committee. Both appointments were effective 17 September 2021.

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 2022

COMMITTEE ACTIVITIES

The committee met four times during the year under review.

Attendance of the members has been set out in 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, 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.

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.

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 2022 financial year. The fees paid to the auditors are disclosed in note 24.3 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.

In accordance with the mandatory audit firm rotation rule issued by the Independent Regulatory Board for Auditors, the company has conducted a formal tender process to appoint a new firm of external auditors. The committee has recommended Ernst & Young Inc. ("EY") as the external auditor with effect from the financial year ending 31 March 2024. PwC's appointment will be terminated upon the conclusion of the audit of the financial year ending 31 March 2023.

AUDIT COMMITTEE REPORT CONTINUED

for the year ended 31 March 2022

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

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.

AUDIT COMMITTEE REPORT CONTINUED

for the year ended 31 March 2022


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 are accredited with the JSE.

The designated auditor is Thinus Hamman who was appointed on 4 December 2017. Mr Rashaad Fortune will be recommended to the shareholders as the designated auditor for the year-ended 31 March 2023 as Thinus will reach the end of his five-year tenure this year as designated auditor.

The committee confirms it has functioned in accordance with its terms of reference for the 2022 financial year.



D Motsepe

Chairperson, Audit committee

24 May 2022

DIRECTORS' REPORT

for the year ended 31 March 2022

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, 146 Best Home and Electric and 143 Beares stores. Sales are mainly on credit. United Furniture Outlets ("UFO") is a cash furniture retailer with a retail footprint of 45 stores.

Monarch Insurance Company Limited, the group's insurer, offers optional microinsurance products 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 129 stores.

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

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 17 to 95.

SEGMENTAL ANALYSIS

Segmental information is set out in note 8 to the annual financial statements.

SHARE CAPITAL

During the financial year, 8 756 200 shares (2021: 5 363 177 shares) were repurchased in terms of section 48 of the Companies Act.

Refer to note 15.4 for more detail. The number of shares in issue at the end of the financial year is 62 779 713 (2021: 71 535 913).

TREASURY SHARES

The Lewis Employee Share Incentive Scheme Trust ("the Trust") effectively holds 108 249 shares (2021: 27 009 shares), all of which will be utilised to cover share awards granted to executives.

DIRECTORS' REPORT CONTINUED

for the year ended 31 March 2022

DIVIDENDS

The following dividends have been declared or proposed for the financial year-ended 31 March 2022:

	Dividend Per share	Date Declared	Date Payable
Interim - declared	195 cents	24 November 2021	24 January 2022
Final - proposed	218 cents	26 May 2022	25 July 2022
For the year	413 cents		

Notice is hereby given that a final gross cash dividend of 218 cents per share in respect of the year-ended 31 March 2022 has been declared payable to holders of ordinary shares. The number of shares in issue as of the date of declaration is 62 840 903. 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 218 cents and the dividend tax payable is 43.6 cents for shareholders who are not exempt. The net dividend for shareholders who are not exempt will therefore be 174.4 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	19 July 2022
Date trading commences "ex" dividend	20 July 2022
Record date	22 July 2022
Date of payment	25 July 2022

Share certificates may not be dematerialised or rematerialised between 20 July 2022 and 22 July 2022, both days inclusive.

DIRECTORS

The directors as at 31 March 2022 are as follows:

- Mr Hilton Saven
- Prof. Fatima Abrahams
- Mr Jacques Bestbier
- Mrs Adheera Bodasing
- Mr Johan Enslin
- Mrs Daphne Motsepe
- Mr Tapiwa Njikizana

COMPANY SECRETARY

Ms INT Makomba resigned as Company secretary with effect from 30 April 2022. Mr R Leparat was appointed as the acting Company secretary for an interim period before the permanent appointment of Mrs MO Gibbons with effect from 1 June 2022. The address of the company secretary is that of registered offices as stated on page 1.

CHANGE IN EQUITY SPONSOR

Shareholders are advised that The Standard Bank of South Africa Limited has been appointed as equity sponsor to Lewis on the JSE, effective 1 March 2022. The appointment follows UBS South Africa (Pty) Ltd advising the company that it will no longer be acting as a sponsor on the JSE.

DIRECTORS' REPORT CONTINUED

for the year ended 31 March 2022

DIRECTORS' INTERESTS

At 31 March 2022, the directors' beneficial direct and indirect interest in the company's issued shares were as follows:

	2022		2021	
	Direct	Indirect	Direct	Indirect
H Saven		6 440		6 440
J Bestbier	87 932	116 566	120 255	100 314
J Enslin	581 077	189 473	425 536	185 421
	669 009	312 479	545 791	292 175

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

Full details of the terms and conditions in relation to these share awards are set out in note 18.2 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 rise to a conflict of interest.

No material related party transactions in terms of the JSE Listings Requirements took place between the group and its directors or their associates, other than remuneration for services rendered to the company as set out in note 18.2 to the annual financial statements.

SUBSIDIARY COMPANIES

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

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

	2022 Rm	2021 Rm
Profit	491.9	471.2
Losses	(8.8)	(38.3)

BORROWING POWERS

Borrowings were R80.8 million at 31 March 2022 (2021: Rnil). Borrowings are subject to the treasury policy adopted by the Board. In terms of the Memorandum of Incorporation, the group has unlimited borrowing powers.

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 2022, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Lewis Group Limited’s consolidated and separate financial statements set out on pages 17 to 93 comprise:

- the consolidated and company balance sheets as at 31 March 2022;
- the consolidated income statement for the year then ended;
- the consolidated and company statements of comprehensive income for the year then ended;
- the consolidated and company statements of changes in equity for the year then ended;
- the consolidated and company cash flow statements for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

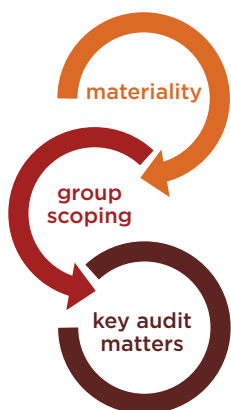
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Our audit approach

Overview



Overall group materiality

- R72 million, which represents 1% of total consolidated revenue.

Group audit scope

- The consolidated financial statements are a consolidation of the Company and nine subsidiaries (directly and indirectly held, and which represent trading entities, dormant entities, an insurance company and a management services company). The Group has six operating subsidiaries in South Africa, Botswana, Lesotho, Eswatini and Namibia.
- All financially significant subsidiaries within the Group were subject to full scope audits. Analytical review procedures were performed over the remaining components. 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 in terms of IFRS 16 ‘Leases’.

The examination of controls over the maintenance and integrity of the Group’s website is beyond the scope of the audit of the financial statements. Accordingly, we accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

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	R72 million
How we determined it	1% of total consolidated revenue
Rationale for the materiality benchmark applied	<p>We 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 relatively low and volatile profit margins over the last five years, whilst the other key elements of the consolidated financial statements have remained constant.</p> <p>We chose 1% based on our professional judgement, after consideration of the range of quantitative materiality thresholds that would typically apply when using consolidated revenue to compute materiality.</p>

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 (directly and indirectly held, and 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. 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.

INDEPENDENT AUDITOR'S REPORT CONTINUED

Key Audit Matter

How our audit addressed the key audit matter

Expected credit losses (ECL) on trade receivables

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

As at 31 March 2022, the gross value of trade receivables was R5.7 billion, against which an ECL of R2.3 billion was recognised.

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 the following:

- Calculation of the probability-weighted cash flows using the trade receivables population payment behaviour in combination with a 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 for each country. 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. This has been performed for each country;

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. 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 certain categories of customers; and

Forward-looking information:

An economic overlay model has been developed by the Group by performing a regression analysis between key economic variables and the percentage of performing accounts rolling into non-performing states in the following 12 months.

- The Group has identified the following economic variables as those with the highest degree of statistical significance:
 - Real durable consumption, adjusted to account for GDP growth
 - Year-on-Year change in debt/ disposable income
- The Group has considered the risk resulting from disruptions to the local and global economic environment which include the continued uncertainty of the Covid-19 pandemic, the recent unrests and floods and taken this into account in assigning probability weightings to the economic overlay.

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

- the degree of subjective judgement and estimation applied by management in determining the ECL;
- the continued uncertainty of the Covid-19 pandemic, the recent unrests, floods and related regulatory changes have on the macroeconomic environment and its impact on the ECL; and
- the magnitude of the ECL recognised in the consolidated financial statements.

Utilising our actuarial expertise, we tested the calibration of ECL statistical model components as follows, noting no aspects which required further consideration, as well as no material exceptions:

- We assessed the appropriateness of the methodology applied by management in their IFRS 9 model documentation, which forms the basis of the ECL calculation, with reference to the requirements of IFRS 9;
- We tested the reasonability of the key assumptions, i.e. effective interest rate and probability weighted cash flows applied in the ECL calculation, through independent recalculation with reference to independent sources of information obtained where applicable; and
- We 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 2022.

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 for all customers, we tested the application of the Group's write-off policy using historical data. We excluded post write-off recoveries from expected cash flows for purposes of recalculating the ECL.

Forward looking information:

Making use of our actuarial expertise we performed the following procedures in respect of the forward looking information included by management in their calculation of ECL:

- We evaluated the impact of economic stresses by creating an independent ECL model. We compared the results of our model to management's ECL model and found no material differences;
- We recalculated an overlay independently and separately for each of three forward-looking economic scenarios and probability-weighted them, with the upside scenario having 5% probability, the downside 70% and the base scenario 25%. We compared the results of our model to management's and found no material differences.

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 in term of IFRS 16 'Leases'

Refer to note 9 (Leases) to the consolidated financial statements.

As at 31 March 2022, lease liabilities had a carrying value of R950m and right-of-use assets of R747m after a net impairment charge of R99m.

A deterioration in the performance of the United Furniture Outlets ("UFO") segment was noted in the second half of the financial year which contributed to the impairment charge in the current year.

The Group leases various properties. Leases are recognised as a lease liability and a corresponding right-of-use (ROU) asset at the date of commencement of the lease agreement in terms of IFRS 16 'Leases' (IFRS 16).

On initial recognition, the ROU asset and lease liability is measured at the present value of the future lease payments discounted over the lease term using the Group's relevant incremental borrowing rate. The lease term may include future lease periods for which the Group has extension options which it is reasonably certain to exercise.

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 (VIU). An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The Group considers each store to be a separate cash generating unit (CGU) for purposes of its impairment assessment and calculated the recoverable amount of each CGU to be its VIU.

VIU is based on discounted future cash flow forecasts, requiring management to make judgements on certain key inputs, including expected sales growth, collection rates, growth in expenses, weighted average cost of capital and terminal growth rates.

We considered this matter to be of most significance to our current year audit of the consolidated financial statements due to the following:

- the degree of judgement and estimation applied by management in determining the lease term and discount rate;
- the magnitude of the ROU asset and lease liability due to the high number of leases; and
- the degree of judgement applied by management in determining the impairment charge relating to ROU assets.

We performed the following procedures:

- For a sample of new leases and modifications, we evaluated the lease terms, including the renewal periods where appropriate. We inspected the underlying contracts to assess management's judgements made in respect of the lease periods applied in the lease calculation, and to evaluate whether they are accurate and complete. We noted no material exceptions;
- We assessed the accuracy of the discount rates determined by management with reference to entity-specific borrowing rates and external market information. We compared management's discount rates used to our range of independently determined discount rates. We found that management's rates fell within our range of rates;
- For a sample of new leases and modifications, we tested the accuracy of the underlying lease data by agreeing the leases to original contracts or other underlying information. We noted no material exceptions;
- We tested the completeness of the lease data by reconciling the lease expenses recognised in the current year, to the lease data underpinning management's IFRS 16 calculations. We noted no material differences; and
- We recalculated the ROU assets and lease liabilities for all leases. We compared our results to that of management, noting no material differences.

We performed the following procedures on the impairment assessment of ROU assets:

- We tested management's impairment calculation of the ROU assets by recalculating the VIU determined by management for a sample of stores.
- Utilising our valuation expertise we tested the reasonableness of the discount rate used in the VIU calculations. We compared our results to that of management, noting no material differences.
- We assessed the reasonableness of management's cash flow forecasts by agreeing prior year forecasts to actual results. We noted no matters in this regard requiring further consideration; and
- We assessed the reasonability of the growth rates used in the forecast period as well as terminal growth rate used. These were assessed with reference to historical performance of the CGU and for that of the Group as applicable, as well as industry reports. Based on our procedures performed, we accepted the assumptions used by management in the impairment models

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 Limited Annual Financial Statements for the year ended 31 March 2022", which includes the Directors' Report, the Audit Committee's Report and the Company Secretary's 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 - Integrated Report 2022", 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.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT CONTINUED

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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 31 years.

PricewaterhouseCoopers Inc

PricewaterhouseCoopers Inc.

Director: MC Hamman

Registered Auditor

Cape Town, South Africa

26 May 2022

Lewis Group Limited:**CONSOLIDATED INCOME STATEMENT**

for the year ended 31 March 2022

	Notes	2022 Rm	2021 Rm
Revenue	6	7 256.1	6 725.9
Retail revenue		5 200.5	4 747.7
Merchandise sales		4 382.5	3 931.2
Ancillary services		818.0	816.5
Insurance revenue		776.0	707.2
Effective interest income		1 279.6	1 271.0
Cost of merchandise sales	7	(2 607.6)	(2 288.8)
Operating costs		(3 881.7)	(3 702.0)
Debtor costs	4.2	(702.4)	(813.0)
Bad debts net of recoveries		(825.7)	(923.3)
Movement in debtors' impairment provision		123.3	110.3
Employment costs	18.1	(1 411.7)	(1 259.1)
Administration and IT		(345.1)	(325.3)
Transport and travel		(278.6)	(241.9)
Marketing		(279.9)	(184.2)
Depreciation and amortisation	13.1	(327.8)	(303.3)
Other operating costs		(536.2)	(575.2)
Operating profit before impairments and capital items		766.8	735.1
Impairments and capital items	24.3	(98.9)	(39.6)
Operating profit		667.9	695.5
Investment income	5.2	34.6	39.1
Interest paid	14.2	(48.9)	(105.3)
Interest received	14.2	25.4	17.2
Foreign exchange losses	14.2	(5.1)	(42.1)
Profit before taxation		673.9	604.4
Taxation	19	(190.8)	(171.5)
Net profit attributable to ordinary shareholders		483.1	432.9
Earnings per share	(cents)	730.7	576.4
Diluted earnings per share	(cents)	709.9	565.3

Lewis Group Limited:**CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME**

for the year ended 31 March 2022

	Note	2022 Rm	2021 Rm
Net profit for the year		483.1	432.9
Items that may be subsequently reclassified to income statement:			
Movement in other reserves		(3.9)	(2.8)
Fair value adjustments		9.0	19.1
Changes in the fair value of debt instruments at fair value through other comprehensive income – FVOCI debt investments		12.5	26.5
Tax effect		(3.5)	(7.4)
Disposal of FVOCI debt investments		–	(0.4)
Disposal		–	(0.5)
Tax effect		–	0.1
Foreign currency translation reserve		(12.9)	(21.5)
Items that may not be subsequently reclassified to income statement:			
Retirement benefit remeasurements		6.5	(8.6)
Remeasurements of the retirement asset and liabilities	18.5.2	9.1	(11.9)
Tax effect		(2.6)	3.3
Other comprehensive income		2.6	(11.4)
Total comprehensive income for the year attributable to ordinary shareholders		485.7	421.5

Lewis Group Limited:**CONSOLIDATED BALANCE SHEET**

as at 31 March 2022

	Notes	2022 Rm	2021 Rm
Assets			
Non-current assets			
Property, plant and equipment	10	396.4	386.0
Right-of-use assets	9.2	747.1	635.0
Intangible assets	11	107.3	114.2
Goodwill	12	151.0	182.4
Deferred taxation	19	82.7	112.2
Retirement benefit asset	18.5	109.8	105.4
Financial assets - insurance investments	5.1	266.1	253.6
		1 860.4	1 788.8
Current assets			
Inventories	7	1 018.8	947.8
Trade, insurance and other receivables	4.1	3 535.0	3 367.3
Taxation	19	28.1	48.8
Financial assets - insurance investments	5.1	156.7	223.7
Cash-on-hand and deposits	14.1	308.1	447.0
		5 046.7	5 034.6
Total assets		6 907.1	6 823.4
Equity and liabilities			
Capital and reserves			
Share capital and premium	15.4	0.9	0.9
Treasury shares	15.4	(3.7)	(0.4)
Other reserves	15.6	11.4	33.6
Retained earnings	15.7	4 708.4	4 838.6
		4 717.0	4 872.7
Non-current liabilities			
Lease liabilities	9.1	700.1	556.0
Deferred taxation	19	27.4	20.6
Retirement benefit liability	18.5	77.3	79.1
		804.8	655.7
Current liabilities			
Trade and other payables	16	685.0	674.5
Payments in advance	17	181.1	162.8
Insurance liabilities	5.3	102.2	123.1
Short-term interest-bearing borrowings	14.1	80.8	-
Lease liabilities	9.1	250.2	249.8
Taxation	19	86.0	84.8
		1 385.3	1 295.0
Total equity and liabilities		6 907.1	6 823.4

Lewis Group Limited:**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

for the year ended 31 March 2022

	Notes	2022 Rm	2021 Rm
Share capital and premium	15.4		
Opening balance		0.9	0.9
Cost of own shares acquired		(353.2)	(112.6)
Transfer of cost of cancelled shares		353.2	112.6
		0.9	0.9
Treasury shares	15.4		
Opening balance		(0.4)	(1.0)
Share awards to employees		51.8	23.6
Cost of own shares acquired		(55.1)	(23.0)
		(3.7)	(0.4)
Other reserves	15.6		
Opening balance		33.6	52.3
Other comprehensive income for the year:			
Changes in fair value of FVOCI debt investments		9.0	19.1
Disposal of FVOCI debt investments		–	(0.4)
Foreign currency translation reserve		(12.9)	(21.5)
Equity-settled share-based payments		21.1	24.3
Transfer of share-based payments reserve to retained earnings on vesting		(39.4)	(40.2)
		11.4	33.6
Retained earnings	15.7		
Opening balance		4 838.6	4 657.3
Net profit attributable to ordinary shareholders		483.1	432.9
Distribution to shareholders	15.2	(254.2)	(147.0)
Transfer of cost of cancelled shares		(353.2)	(112.6)
Transfer of share-based payments reserve to retained earnings on vesting		39.4	40.2
Retirement benefit remeasurements		6.5	(8.6)
Share awards to employees		(51.8)	(23.6)
		4 708.4	4 838.6
Balance as at 31 March		4 717.0	4 872.7

Lewis Group Limited:**CONSOLIDATED CASH FLOW STATEMENT**

for the year ended 31 March 2022

	Notes	2022 Rm	2021 Rm
Cash flow from operating activities			
Cash flow from trading	20.1	1 019.5	1 053.3
Changes in working capital	20.2	(156.2)	(138.7)
Cash flow from operations		863.3	914.6
Interest received other than from trade receivables		25.4	55.8
Interest paid	20.3	(74.7)	(90.4)
Foreign exchange losses		(4.8)	(16.6)
Taxation paid	19	(104.2)	(55.3)
		705.0	808.1
Cash utilised in investing activities			
Purchases of insurance investments	5.1	(51.2)	(61.1)
Disposals of insurance investments		152.8	84.2
Acquisition of property, plant and equipment and intangible assets	10, 11	(119.5)	(121.3)
Proceeds on disposal and scrapping of property, plant and equipment		52.3	2.6
		34.4	(95.6)
Cash flow from financing activities			
Dividends paid	15.2	(254.2)	(147.0)
Payment of principal portion of lease liabilities	9.1	(296.6)	(254.2)
Repayments of borrowings		–	(922.1)
Purchase of own shares		(408.3)	(135.6)
		(959.1)	(1 458.9)
Net decrease in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		447.0	1 193.4
Cash and cash equivalents at the end of the year	14.1	227.3	447.0

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS**

for the year ended 31 March 2022

1.1 BASIS OF PREPARATION

The financial statements are prepared in accordance with IFRS, the IFRS Interpretations Committee interpretations, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, 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.

The following IFRS amendment became effective for the first time for the 31 March 2022 year-end, however, early adoption was permitted:

- Amendments to IFRS 16: Covid-19-related rent concessions.

The amendment to IFRS 16 provides an optional practical expedient to lessees allowing rental concessions to be recognised as an immediate saving in rent expense.

The group has elected not to apply this practical expedient but rather to treat the rent concessions received as a lease modification and has therefore processed an adjustment against the lease liability and ROU asset. Refer leases note 9 for further details.

The group has a trading cycle of 1 April to 31 March aligned with its statutory year-end. The trading period of the previous financial year ran from 5 April 2020 to 31 March 2021. The impact of the shorter trading period in the previous financial year was insignificant due to the Covid-19 lockdown implemented from 27 March 2020 when stores were closed in accordance with Level 5 regulations.

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
Insurance liabilities	5.3
Retail revenue	6.2
Leases	9
Useful lives and residual values of fixed assets	10
Goodwill	12
Payments in advance	17
Share-based payments	18.3
Retirement benefits	18.5
Normal and deferred taxation	19

Lewis Group Limited:

CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 March 2022

2. RISK MANAGEMENT

The Board 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 four independent non-executive directors, one non-executive director and two executive directors which operates in compliance with a formal charter. The Chief risk officer oversees the risk function. The committee assists the Board by, *inter alia*:

- reviewing the risk management policy and plan annually;
- making recommendations on risk tolerance and appetite;
- evaluating and agreeing 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
- exercising 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 a 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 CONTINUED**

for the year ended 31 March 2022

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	14.1
Price risk	
Insurance investments	5.1
Interest rate risk	
Trade receivables	4.1
Insurance investments	5.1
Lease liabilities	9.1
Net finance costs	14.2
Currency risk	
Net finance costs	14.2
Liquidity risk	
Lease liabilities	9.1
Borrowings	14.1
Insurance risk	
Insurance liabilities	5.3
Actuarial risk	
Defined benefit retirement plans	18.5.4
Post-retirement healthcare benefits	18.5.5

3. FINANCIAL INSTRUMENTS

The group holds the following financial instruments:

	Note reference
Trade and other receivables	4.1
Insurance investments	5.1
Lease liabilities	9.1
Cash-on-hand and deposits	14.1
Borrowings	14.1
Trade payables	16

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.

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

3. FINANCIAL INSTRUMENTS continued**(ii) Business model assessment** continued

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

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

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

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

- **Amortised cost:**

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

- **FVOCI (Hold to collect and sell):**

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

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

- **FVTPL (Hold to sell/manage on 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; or
- 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.

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

3. FINANCIAL INSTRUMENTS continued**Accounting policies** continued**(iv) Impairment of financial assets** continued**Financial assets other than trade receivables** continued• **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 asset. For these credit impaired assets, the interest or return on these assets are calculated on the amortised cost. Amortised cost is defined as the gross carrying value on initial recognition (adjusted for any modifications) less the impairment provision.

The impairment gains or losses are presented as follows:

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

Trade receivables

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

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.

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 CONTINUED**

for the year ended 31 March 2022

3. FINANCIAL INSTRUMENTS continued

i) Categories

	Amortised cost Rm	FVOCI debt Rm	Total Rm
2022			
Assets			
Insurance investments	–	422.8	422.8
Trade and other receivables	3 535.0	–	3 535.0
Cash-on-hand and deposits	308.1	–	308.1
Liabilities			
Borrowings	80.8	–	80.8
Lease liabilities	950.3	–	950.3
Trade payables	151.6	–	151.6
2021			
Assets			
Insurance investments	–	477.3	477.3
Trade and other receivables	3 367.3	–	3 367.3
Cash-on-hand and deposits	447.0	–	447.0
Liabilities			
Lease liabilities	805.8	–	805.8
Trade payables	175.6	–	175.6

ii) Maturity profile of financial assets

The maturity profiles of financial assets are as follows:

	0 to 12 months Rm	1 to 2 years Rm	3 to 5 years Rm	>5 years Rm	Total Rm
2022					
Insurance investments	156.7	–	–	266.1	422.8
Trade and other receivables	2 301.1	920.5	313.4	–	3 535.0
Cash-on-hand and deposits	308.1	–	–	–	308.1
	2 765.9	920.5	313.4	266.1	4 265.9
2021					
Insurance investments	223.7	–	–	253.6	477.3
Trade and other receivables	2 162.5	868.4	336.4	–	3 367.3
Cash-on-hand and deposits	447.0	–	–	–	447.0
	2 833.2	868.4	336.4	253.6	4 291.6

iii) Maturity profile of financial liabilities

The maturity profiles of undiscounted financial liabilities are as follows:

	0 to 12 months Rm	1 to 2 years Rm	3 to 5 years Rm	>5 years Rm	Total Rm
2022					
Borrowings	(80.8)	–	–	–	(80.8)
Lease liabilities	(250.2)	(229.4)	(369.9)	(100.8)	(950.3)
Interest on lease liabilities	(56.2)	(39.4)	(53.2)	(8.9)	(157.7)
Trade payables	(151.6)	–	–	–	(151.6)
	(538.8)	(268.8)	(423.1)	(109.7)	(1 340.4)
2021					
Lease liabilities	(249.8)	(190.0)	(285.2)	(80.8)	(805.8)
Interest on lease liabilities	(49.3)	(33.7)	(44.3)	(7.9)	(135.2)
Trade payables	(175.6)	–	–	–	(175.6)
	(474.7)	(223.7)	(329.5)	(88.7)	(1 116.6)

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

3. FINANCIAL INSTRUMENTS continued

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
2022				
Assets				
Gross instalment sale receivables	Up to three years	19.6	Fixed	5 696.7
Fixed income securities	Varies (refer note 5)	8.1	Fixed	266.1
Money market investments	Up to 12 months	5.2	Floating	156.7
Liabilities				
Short-term interest-bearing borrowings	Varies (refer note 14)	6.1	Floating	80.8
Lease liabilities	Varies	7.3	Fixed	950.3
2021				
Assets				
Gross instalment sale receivables	Up to three years	21.2	Fixed	5 691.4
Fixed income securities	Varies (refer note 5)	8.1	Fixed	253.6
Money market investments	Up to 12 months	4.8	Floating	223.7
Liabilities				
Short-term interest-bearing borrowings	Varies (refer note 14)	5.9	Floating	–
Lease liabilities	Varies	8.0	Fixed	805.8

v) Interest received and paid on financial instruments

	2022 Rm	2021 Rm
Interest received on financial assets		
Insurance investments	34.6	38.6
Trade and other receivables	1 398.9	1 421.8
Cash-on-hand and deposits	14.4	17.2
	1 447.9	1 477.6
Interest paid on financial liabilities		
Borrowings	12.6	14.3
Lease liabilities	62.1	66.0
	74.7	80.3

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

4. TRADE, OTHER RECEIVABLES AND DEBTOR COSTS**4.1 Trade, insurance and other receivables**

	2022 Rm	2021 Rm
Trade and insurance receivables	5 696.7	5 691.4
Trade receivables	5 581.3	5 551.5
Insurance receivables	115.4	139.9
Provision for impairment	(2 300.4)	(2 423.7)
Trade receivables	(2 233.3)	(2 338.5)
Insurance receivables	(67.1)	(85.2)
Trade and insurance receivables (net)	3 396.3	3 267.7
Due within 12 months	2 162.4	2 098.5
Due after 12 months	1 233.9	1 169.2
Other receivables	138.7	99.6
Total trade, insurance and other receivables	3 535.0	3 367.3
Debtors' impairment provision as a percentage of debtors at gross carrying value (%)	40.4	42.6

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 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.

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

4. TRADE, OTHER RECEIVABLES AND DEBTOR COSTS continued

4.1 Trade, insurance and other receivables continued

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.

The probability-weighted cash flows are calculated using the following:

- Transition matrix and conditional probabilities.
- 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 matrices have been developed for each of the countries which 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.
- 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 forecasted up to month 60 of the account.

The payment performance for each payment state is calculated using the actual payment history for each payment rating over the last 12 months.

Forward-looking information

IFRS 9 requires that the ECL impairment provision considers potential future changes in the economic environment. To achieve this, an economic overlay model has been developed by performing a regression analysis between key economic variables and the percentage of performing accounts rolling into non-performing states in the following 12 months. This analysis is done on an annual basis to identify the relevant economic variables and assess the degree of correlation with the non-performing category.

The assessment for 2022 has identified the following economic variables as those with the highest degree of statistical significance:

- Real durable consumption, adjusted to account for GDP growth.
- Year-on-year change in debt/disposable income.

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

4. TRADE, OTHER RECEIVABLES AND DEBTOR COSTS continued**4.1 Trade, insurance and other receivables continued****Significant accounting estimates and judgements continued****Forward-looking information** continued

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.

The economic environment has been severely disrupted in the recent past and management is of the view that trading conditions will become tougher. Covid-19 and the Russia/Ukraine war continues to pose a significant threat to the global economy, whilst recent unrests and floods placed further pressure on the local economy. Record high unemployment rates, rising inflation and higher interest rates are likely to result in additional strain on the South African consumer.

Taking the above aggravating circumstances into consideration, management has assigned a probability of 70% to the downside scenario, 25% to the base scenario and 5% to the upside scenario for the 12-month forecast. The resultant impact of R270.4 million was included in the group's ECL impairment provision.

Management's areas of judgement include the probabilities of these scenarios occurring, the severity of the scenarios and the potential impact it might have on payment performance. A sensitivity analysis has been performed and the impact is illustrated below:

Probability-weighted impact of all three scenarios	2022	
	Rm	% change
	270.4	
100% downside scenario	302.1	11.7
100% base scenario	211.6	(21.7)
100% upside scenario	120.3	(55.5)

In the prior year, due to the severely disrupted economic environment as a result of Covid-19, a lower statistical correlation was observed when performing this assessment at 31 March 2021 resulting in the conclusion that a pure statistical correlation model based on a regression analysis was not appropriate. Covid-19 continued to pose a significant threat to the economy and management's view was that trading conditions would become tougher. The impairment model used the last 12 months' payment performance and was therefore calibrated to allow for a distressed macroeconomic environment in the new financial year, similar to the experience of the year-ended March 2021. To incorporate the potential further impact of Covid-19 on the forward-looking information, the impact of event risk not accounted for was quantified by building stressed macroeconomic variables into the impairment model. These included further economic strain that could result from another hard lockdown, the discontinuation of Covid-19 social grants and the impact of government employees wage freeze on their ability to service debt. The combined impact on the group's ECL for these variables was R114.1 million.

(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 (as defined on the following page).
- *In duplum* accounts (the National Credit Act section providing that all charges cease 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 account qualifies to move into a 'Slow payers' or 'Satisfactory paid' category. 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

Insurance receivables and the impairment of insurance receivables are recognised and measured in terms of IFRS 4 Insurance Contracts.

Lewis Group Limited:

CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 March 2022

4. TRADE, OTHER RECEIVABLES AND DEBTOR COSTS continued

4.1 Trade, insurance and other receivables continued

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.

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

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

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

Payment ratings

The customer's payment profile is managed by using payment ratings. Payment ratings are determined on an individual customer level and aggregated over all the customer's sub-accounts. Payment ratings measure the customer's actual payments received over the lifetime of the account relative to the instalments due in terms of the contract.

There are 13 payment ratings with customers being allocated to one of these 13 payment ratings in accordance with their payment behaviour. For the purpose of managing the business, the 13 payment ratings are summarised into three main groupings, namely:

- **Satisfactory paid**

These represent customers with a payment rating of between 9 and 13, with the lowest rated customers having paid an average of approximately 70% over the contract period (with no single customer paying less than 65.4%).

- **Slow payers**

These represent customers with a payment rating of 7 and 8, with the lowest rated customers having paid an average of approximately 55% of amounts due over the contract period (with no single customer paying less than 50.0%).

- **Non-performing accounts**

These represent customers not classified as Satisfactory paid or Slow payers with a payment rating of 6 and lower.

These payment ratings are used to categorise and report on customers at the store level to re-sell to satisfactory paid customers and to follow up the slow paying and non-performing customers.

Impairment provision

In accordance with IFRS 9, the group has elected to measure the impairment allowance equal to the lifetime 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.

Lewis Group Limited:

CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 March 2022

4. TRADE, OTHER RECEIVABLES AND DEBTOR COSTS continued

4.1 Trade, insurance and other receivables continued

Impairment provision continued

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 forecasted up to month 60 of the account.

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

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

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

Contractual arrears

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

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

Combined impairment and contractual arrears table

The table reflects the following:

- 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.
 - 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 CONTINUED

for the year ended 31 March 2022

4. TRADE, OTHER RECEIVABLES AND DEBTOR COSTS continued

4.1 Trade, insurance and other receivables continued

Debtor analysis 31 March 2022

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	455 999 79.0	3 905 943 68.6	841 709 36.6	21.5	592 552	169 347	116 257	85 423	221 525
Slow payers	69 098 12.0	819 412 14.4	599 732 26.1	73.2	530 575	58 173	56 023	52 726	363 653
Non-performing accounts	51 796 9.0	971 311 17.0	858 977 37.3	88.4	759 918	47 276	46 618	45 898	620 126
Total	576 893	5 696 666	2 300 418	40.4	1 883 045	274 796	218 898	184 047	1 205 304

Credit impaired debtors as at 31 March 2022

Credit impaired categories	Non-performing accounts R'000	In duplum		Debt counselling		No payment in three consecutive months		Total R'000
		Satisfactory R'000	Slow pay R'000	Satisfactory R'000	Slow pay R'000	Satisfactory R'000	Slow pay R'000	
Gross carrying value	971 311	1 708	1 878	44 838	60 200	43 703	58 981	1 182 619
Impairment provision	(858 977)	(817)	(1 474)	(13 135)	(41 628)	(13 300)	(41 175)	(970 506)
Amortised cost	112 334	891	404	31 703	18 572	30 403	17 806	212 113

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS** CONTINUED

for the year ended 31 March 2022

4. TRADE, OTHER RECEIVABLES AND DEBTOR COSTS continued

4.1 Trade, insurance and other receivables continued

Debtors analysis 31 March 2021

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	430 459	3 537 586	733 902	20.7	592 247	169 226	118 916	88 177	215 928
	74.4	62.2	30.3						
Slow payers	78 608	915 822	618 421	67.5	568 282	64 802	62 430	59 197	381 853
	13.6	16.1	25.5						
Non-performing accounts	69 751	1 238 029	1 071 346	86.5	895 977	61 765	60 953	60 193	713 066
	12.0	21.7	44.2						
Total	578 818	5 691 437	2 423 669	42.6	2 056 506	295 793	242 299	207 567	1 310 847

Credit impaired debtors as at 31 March 2021

Credit impaired categories	Non-performing accounts R'000	In duplum		Debt counselling		No payment in three consecutive months		Total R'000
		Satisfactory R'000	Slow pay R'000	Satisfactory R'000	Slow pay R'000	Satisfactory R'000	Slow pay R'000	
Gross carrying value	1 238 029	2 047	1 974	32 973	56 203	53 074	80 068	1 464 368
Impairment provision	(1 071 346)	(939)	(1 364)	(10 496)	(35 820)	(18 325)	(53 172)	(1 191 462)
Amortised cost	166 683	1 108	610	22 477	20 383	34 749	26 896	272 906

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS** CONTINUED

for the year ended 31 March 2022

4. TRADE, OTHER RECEIVABLES AND DEBTOR COSTS continued

4.1 Trade, insurance and other receivables continued

	Not credit impaired Rm	Credit impaired Rm	Total Rm
Analysis of gross trade receivables			
As at 31 March 2022			
Opening balance	4 227.0	1 464.4	5 691.4
New accounts	2 442.4	–	2 442.4
Accounts settled	(610.9)	(75.8)	(686.7)
Receivables derecognised (Bad debts written off)	–	(1 021.3)	(1 021.3)
Change in value due to transactions ⁽¹⁾	(1 071.1)	342.0	(729.1)
Transfers:			
Cured (from "Credit impaired" to "Not credit impaired")	78.9	(78.9)	–
New credit impaired (from "Not credit impaired" to "Credit impaired")	(552.3)	552.3	–
Closing balance	4 514.0	1 182.7	5 696.7
As at 31 March 2021			
Opening balance	4 063.5	1 683.0	5 746.5
New accounts	2 158.6	–	2 158.6
Accounts settled	(628.7)	(67.0)	(695.7)
Receivables derecognised (Bad debts written off)	–	(1 133.0)	(1 133.0)
Change in value due to transactions ⁽¹⁾	(361.5)	(23.5)	(385.0)
Transfers:			
Cured (from "Credit impaired" to "Not credit impaired")	104.0	(104.0)	–
New credit impaired (from "Not credit impaired" to "Credit impaired")	(1 108.9)	1 108.9	–
Closing balance	4 227.0	1 464.4	5 691.4
Analysis of impairment allowance			
As at 31 March 2022			
Opening balance	1 232.2	1 191.5	2 423.7
New accounts	633.9	–	633.9
Accounts settled	(67.8)	(50.4)	(118.2)
Receivables derecognised (Bad debts written off)	–	(782.3)	(782.3)
Change in value due to transactions ⁽¹⁾	(100.4)	243.7	143.3
Transfers:			
Cured (from "Credit impaired" to "Not credit impaired")	53.1	(53.1)	–
New credit impaired (from "Not credit impaired" to "Credit impaired")	(421.1)	421.1	–
Closing balance	1 329.9	970.5	2 300.4
ECL coverage	(%) 29.5	82.1	40.4
As at 31 March 2021			
Opening balance	1 231.9	1 302.1	2 534.0
New accounts	551.3	–	551.3
Accounts settled	(77.7)	(36.4)	(114.1)
Receivables derecognised (Bad debts written off)	–	(846.7)	(846.7)
Change in value due to transactions ⁽¹⁾	262.9	36.3	299.2
Transfers:			
Cured (from "Credit impaired" to "Not credit impaired")	59.3	(59.3)	–
New credit impaired (from "Not credit impaired" to "Credit impaired")	(795.5)	795.5	–
Closing balance	1 232.2	1 191.5	2 423.7
ECL coverage	(%) 29.2	81.4	42.6

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

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

4. TRADE, OTHER RECEIVABLES AND DEBTOR COSTS continued**4.1 Trade, insurance 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 19.6% (2021: 21.2%) and the average term of the sale is 32.7 months (2021: 32.4 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

	2022 Rm	2021 Rm
Bad debts	902.0	982.2
Bad debts before adjustment for interest on credit impaired accounts	1 021.3	1 133.0
Adjustment for interest on credit impaired accounts	(119.3)	(150.8)
Bad debt recoveries	(76.3)	(58.9)
Movement in debtors' impairment provision	(123.3)	(110.3)
Closing balance	2 300.4	2 423.7
Opening balance	(2 423.7)	(2 534.0)
Total debtor costs	702.4	813.0
Debtor costs as a percentage of debtors at gross carrying value	(%) 12.3	14.3

"Bad debts before adjustment for interest on credit impaired accounts" is the gross carrying amounts of the trade receivables written off. For credit impaired accounts, interest income is recognised by applying the effective interest rate to the amortised cost (gross carrying value less impairment provision), resulting in lower bad debts.

Accounting policy**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 CONTINUED**

for the year ended 31 March 2022

5. INSURANCE**5.1 Insurance investments**

	2022 Rm	2021 Rm
Financial assets – insurance investments		
Listed investments		
Fixed income securities – FVOCI debt investments	266.1	253.6
Unlisted investments		
Money market – FVOCI debt investments	156.7	223.7
	422.8	477.3
Analysed as follows:		
Non-current	266.1	253.6
Current	156.7	223.7
	422.8	477.3
Movement for the year		
Beginning of the year	477.3	473.9
Additions to investments	51.2	61.1
Disposals of investments	(152.8)	(119.8)
Interest	34.6	36.1
Fair value adjustment	12.5	26.0
End of the year	422.8	477.3

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 CONTINUED**

for the year ended 31 March 2022

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	2022	2021 Credit rating	Maturity profile	2022	2021 Rm
	Credit rating			Rm	
RSA 7.00% 280231	Ba2	Ba2	7 to 12 years	105.3	103.2
RSA 6.25% 310336	Ba2	Ba2	12+ years	110.4	103.4
RSA 6.5% 280241	Ba2	Ba2	12+ years	50.4	47.0
Total				266.1	253.6

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	2022		2021		2022 Rm	2021 Rm
	Long-term	Short-term	Long-term	Short-term		
FirstRand Bank	Ba2	NP	Ba2	NP	23.2	41.3
Absa	Ba2	NP	Ba2	NP	32.3	42.3
Nedbank	Ba2	NP	Ba2	NP	32.3	46.4
Standard Bank	Ba2	NP	Ba2	NP	30.2	43.3
Investec	Ba2	NP	Ba2	NP	32.2	46.3
Other					6.5	4.1
Total					156.7	223.7

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.

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:

	2022	2021
Modified duration of Monarch's fixed income portfolio	7.5	7.6
Modified duration of the JSE All Bond Index	6.6	6.3

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

5. INSURANCE continued**5.1 Insurance investments continued**

	2022 Rm	2021 Rm
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 5.2% (2021: 4.8%). 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	0.5	0.8
-50 basis points	(0.5)	(0.8)
The coupon rate on fixed income securities prevailing at year-end was 8.1% (2021: 8.1%). 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	1.3
-50 basis points	(1.3)	(1.3)

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
2022		
Insurance investments:		
Fixed income securities – FVOCI debt investments	266.1	266.1
Money market floating rate notes – FVOCI debt investments	156.7	156.7
	422.8	422.8
2021		
Insurance investments:		
Fixed income securities – FVOCI debt investments	253.6	253.6
Money market floating rate notes – FVOCI debt investments	223.7	223.7
	477.3	477.3

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 12).

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

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

5. INSURANCE continued**5.2 Investment income**

	2022 Rm	2021 Rm
Interest and other income – insurance business	34.6	38.6
Realised gain on disposal of insurance investments	–	0.5
	34.6	39.1

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.

5.3 Insurance liabilities

	2022 Rm	2021 Rm
Unearned premiums	35.2	33.5
Opening balance	33.5	38.6
Released to the income statement	1.7	(5.1)
Outstanding claims and IBNR	67.0	89.6
Opening balance	89.6	66.2
Charged in the income statement ⁽¹⁾	247.3	252.7
Claims paid	(238.5)	(200.4)
Claims management fee	(31.4)	(28.9)
Total insurance liabilities	102.2	123.1

⁽¹⁾ Amount charged in the income statement has been included in other operating costs.**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.

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 CONTINUED**

for the year ended 31 March 2022

5. INSURANCE continued**5.3 Insurance liabilities** continued**Significant accounting estimates and judgements**

In estimating the provision for claims reported but not yet paid, the notified claims at balance sheet date are reviewed and predetermined formulae based on experience are applied.

The IBNR reserve is calculated for each class of business at year-end by projecting ultimate claims for each loss quarter using:

- the Chain-Ladder method ("CL");
- Bornhuetter-Ferguson method ("BF"); or
- the Loss Ratio method ("LR").

The IBNR is calculated from the projected ultimate claims per origin quarter, after deducting paid claims to date and the provision for outstanding claims for that origin quarter.

Below is the sensitivity analysis of the net profit after tax should the IBNR increase or decrease by 10%:

	2022 Rm	2021 Rm
IBNR increases by 10 basis points	(4.0)	(4.2)
IBNR decreases by 10 basis points	4.0	4.2

5.4 Maturity analysis

	0 to 12 months Rm	1 to 2 years Rm	3 to 5 years Rm	>5 years Rm	Total Rm
2022					
Insurance liabilities	(82.8)	(19.4)	-	-	(102.2)
2021					
Insurance liabilities	(103.5)	(19.6)	-	-	(123.1)

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, and external insurer's in 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.
- 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 and actuarial techniques.

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.

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

5. INSURANCE continued**Insurance risk continued**

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.

Catastrophe cover has been placed with third-party insurers in order to reduce the potential impact of a single catastrophic 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, No. 53 of 1998, as amended, Long-Term Insurance Act, No. 52 of 1998, as amended and the Insurance Act, No. 18 of 2017 ("Insurance Acts").

The Insurance Acts, including the Financial Soundness Standards for Insurers and Microinsurers, became effective on 1 July 2018 and stipulate the calculation of the value of assets, liabilities and the solvency capital requirement of Microinsurers as well as 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

	2022 Rm	2021 Rm
Investment in insurance cell captive included in other receivables	37.3	10.7
Reconciliation		
Opening balance	10.7	21.1
Share of profit for the year	73.9	53.2
Dividends received	(47.3)	(63.6)
Closing balance	37.3	10.7

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 company is required at all times to maintain the cell in a financially sound condition. 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 CONTINUED**

for the year ended 31 March 2022

6. REVENUE**6.1 Revenue**

	2022 Rm	2021 Rm
Retail revenue – revenue from contracts with customers	5 200.5	4 747.7
Merchandise sales	4 382.5	3 931.2
Ancillary services	818.0	816.5
Insurance revenue	776.0	707.2
Effective interest income	1 279.6	1 271.0
Finance charges and initiation fees earned	1 398.9	1 421.8
Adjustment for interest on credit impaired accounts	(119.3)	(150.8)
	7 256.1	6 725.9

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:

- By instalment sale and loan agreements. Such agreements are subject to credit legislation in the jurisdictions that the group operates.
- 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 one-year supplier's warranty; 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 CONTINUED**

for the year ended 31 March 2022

6. REVENUE continued**6.2 Retail revenue – revenue from contracts with customers**

	Traditional Rm	Cash Rm	Group Rm
2022			
Merchandise sales			
- Cash	1 560.3	569.1	2 129.4
- Credit	2 253.1	–	2 253.1
Ancillary services			
- At a point in time	166.4	9.0	175.4
- Over time	642.6	–	642.6
	4 622.4	578.1	5 200.5
2021			
Merchandise sales			
- Cash	1 434.4	566.5	2 000.9
- Credit	1 930.3	–	1 930.3
Ancillary services			
- At a point in time	153.5	10.4	163.9
- Over time	652.6	–	652.6
	4 170.8	576.9	4 747.7

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 arm's 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 supplier's 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 ordered goods is made and the transaction finally approved. 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.

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

6. REVENUE continued**6.3 Insurance revenue**

	2022 Rm	2021 Rm
Gross premiums written	777.7	702.1
Changes in unearned premiums	(1.7)	5.1
Net premiums earned	776.0	707.2

7. GROSS PROFIT AND INVENTORIES

	2022 Rm	2021 Rm
Merchandise sales	4 382.5	3 931.2
Cost of merchandise sales	(2 607.6)	(2 288.8)
Purchases	(2 678.6)	(2 495.9)
Movement in inventory	71.0	207.1
Merchandise gross profit	1 774.9	1 642.4
Gross profit margin	(%) 40.5	41.8
Inventories		
Cost of merchandise	1 076.5	1 033.2
Less: provision for obsolescence	(57.7)	(85.4)
	1 018.8	947.8

Included in the above is an adjustment for stock with a right of return of R27.5 million (2021: R33.9 million). Refer to note 6 for details on the refund obligation.

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.

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

8. REPORTABLE SEGMENTS

Primary	Traditional Rm	Cash Rm	Group Rm
2022			
Segment income statement			
Merchandise sales	3 813.4	569.1	4 382.5
Total revenue from external customers			
Retail revenue – revenue from contracts with customers	4 622.4	578.1	5 200.5
Insurance revenue	776.0	–	776.0
Effective interest income	1 279.6	–	1 279.6
	6 678.0	578.1	7 256.1
Cost of merchandise sales	(2 291.1)	(316.5)	(2 607.6)
Operating costs	(3 658.7)	(223.0)	(3 881.7)
Segment operating profit before impairments and capital items	728.2	38.6	766.8
Segment operating margin before impairments and capital items	(%) 19.1	6.8	17.5
Segment operating profit/(loss)	704.2	(36.3)	667.9
Segment operating margin	(%) 18.5	(6.4)	15.2
Segment assets⁽¹⁾	4 211.4	203.7	4 415.1
Capital expenditure	115.5	4.0	119.5
Depreciation and amortisation	280.8	47.0	327.8
Impairment	54.7	75.9	130.6
2021*			
Segment income statement			
Merchandise sales	3 364.7	566.5	3 931.2
Total revenue from external customers			
Retail revenue – revenue from contracts with customers	4 170.8	576.9	4 747.7
Insurance revenue	707.2	–	707.2
Effective interest income	1 271.0	–	1 271.0
	6 149.0	576.9	6 725.9
Cost of merchandise sales	(1 978.1)	(310.7)	(2 288.8)
Operating costs	(3 528.6)	(173.4)	(3 702.0)
Segment operating profit before impairments and capital items	642.3	92.8	735.1
Segment operating margin before impairments and capital items	(%) 19.1	16.4	18.7
Segment operating profit	602.7	92.8	695.5
Segment operating margin	(%) 17.9	16.4	17.7
Segment assets⁽¹⁾	4 074.0	141.5	4 215.5
Capital expenditure	120.4	0.9	121.3
Depreciation and amortisation	263.5	39.8	303.3
Impairment/write-off	39.7	–	39.7

⁽¹⁾ Segment assets include net trade and insurance receivables of R3 396.3 million (2021: R3 267.7 million) and inventory of R1 018.8 million (2021: R947.8 million).

* The disclosure for the comparative period has been restated to align with the presentation of the income statement.

Geographical	South Africa Rm	Namibia Rm	BLE ⁽²⁾ Rm	Group Rm
2022				
Revenue	6 165.6	545.3	545.2	7 256.1
Non-current assets ⁽³⁾	1 057.9	102.2	90.7	1 250.8
2021				
Revenue	5 724.8	498.7	502.4	6 725.9
Non-current assets ⁽³⁾	962.6	98.1	74.5	1 135.2

⁽²⁾ Botswana, Lesotho and Eswatini

⁽³⁾ Non-current assets are defined as property, plant and equipment, intangible assets (excluding goodwill) and right-of-use assets.

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

8. REPORTABLE SEGMENTS continued**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* 7 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.

* *Living Standards Measure ("LSM") index as developed by the South African Audience Research Foundation ("SAARF").*

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

9. LEASES**9.1 Lease liabilities**

	2022 Rm	2021 Rm
Opening balance	805.8	837.9
Additions and renewed leases	444.9	239.3
Expired, renegotiated and modified leases	(4.1)	(3.8)
Rent concessions	0.3	(13.4)
Principal portion of lease liabilities	(296.6)	(254.2)
Interest on lease liabilities	62.1	66.0
Lease liability payments	(358.7)	(320.2)
Closing balance	950.3	805.8
Analysed as follows:	950.3	805.8
Non-current	700.1	556.0
Current	250.2	249.8

9.2 Right-of-use assets

	2022 Rm	2021 Rm
Retail premises		
Opening balance	635.0	693.7
Additions and renewed leases	444.9	239.3
Expired, renegotiated and modified leases	(2.6)	(3.2)
Remeasurement of restoration provision	1.1	(7.9)
Rent concessions	0.3	(13.4)
Depreciation	(232.4)	(239.7)
Net impairment	(99.2)	(33.8)
Closing balance	747.1	635.0

9.3 Liquidity risk

The maturity analysis of undiscounted liabilities are as follows:

	0 to 12 months Rm	1 to 2 years Rm	3 to 5 years Rm	>5 years Rm	Total Rm
2022					
Liabilities					
Total undiscounted lease liabilities	306.4	268.8	423.1	109.7	1 108.0
Lease liabilities	250.2	229.4	369.9	100.8	950.3
Interest on lease liabilities	56.2	39.4	53.2	8.9	157.7
Extension options ⁽¹⁾	130.3	130.1	370.8	263.9	895.1
2021					
Liabilities					
Total undiscounted lease liabilities	299.1	223.7	329.5	88.7	941.0
Lease liabilities	249.8	190.0	285.2	80.8	805.8
Interest on lease liabilities	49.3	33.7	44.3	7.9	135.2
Extension options ⁽¹⁾	130.9	128.2	340.0	184.8	783.9

⁽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.

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

9. LEASES continued**9.4 Short-term and low value leases**

	2022 Rm	2021 Rm
Expense relating to short-term and low value leases (included in other operating costs)	14.3	19.9

The total cash outflow in respect of lease liability payments is R358.7 million (2021: R320.2 million).

Accounting policies

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 right-of-use ("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.

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

9. LEASES continued**Significant accounting estimates and judgements****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 7.27% (2021: 8.03%).

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.

Rental concessions

The group received rental concessions on some of its leases during the Covid-19 hard lockdown period when stores were closed. The amendment to IFRS 16 provides an optional practical expedient to lessees allowing the concession to be recognised as an immediate saving in rent expense.

The group has elected not to apply this practical expedient but rather to treat the rent concessions received as a lease modification and has therefore processed an adjustment against the lease liability and ROU asset.

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 CONTINUED**

for the year ended 31 March 2022

9. LEASES continued**Significant accounting estimates and judgements 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 Cash-Generating Unit ("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, due to significant macro-economic risks as well as the deterioration in the performance of the UFO segment in the second half of the year, all stores were tested for impairment.

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 medium-term.
- An average growth in cash receipts (debtor collections and cash sales) of 5.8% (2021: 4.5%) over the three-year period was applied. At the expiry of the lease, the company assesses future cash flows from the CGU using either a run-off model or a terminal value calculation. The run-off model uses a principle of continued collections from the existing debtors book or a terminal value growth rate of 6% (2021: 6%).
- 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 20.8% (2021: 19.7%).

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 net impairment charge for the year was calculated at R99.2 million (2021: R33.8 million).

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

10. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings Rm	Vehicles Rm	Furniture, fixtures and equipment Rm	Total Rm
As at 31 March 2022				
Opening net carrying value	125.4	133.4	127.2	386.0
Cost	143.9	309.5	313.3	766.7
Accumulated depreciation	(18.5)	(176.1)*	(186.1)*	(380.7)
Additions	2.7	42.2	67.2	112.1
Disposals at carrying value	(6.7)	(5.9)	(8.0)	(20.6)
Depreciation	(1.2)	(32.1)	(47.8)	(81.1)
Closing net carrying value	120.2	137.6	138.6	396.4
Cost	138.8	314.3	341.4	794.5
Accumulated depreciation	(18.6)	(176.7)	(202.8)	(398.1)
As at 31 March 2021				
Opening 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)
Additions	3.1	39.8	71.8	114.7
Disposals at carrying value	(0.3)	(1.8)	(0.4)	(2.5)
Depreciation	(1.2)	(28.4)	(21.0)	(50.6)
Closing net carrying value	125.4	115.3	145.3	386.0
Cost	143.9	309.5	313.3	766.7
Accumulated depreciation	(18.5)	(194.2)	(168.0)	(380.7)

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

* The opening balance for accumulated depreciation has been reallocated between classes of PPE. The total opening balance for accumulated depreciation remains unchanged.

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.

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 8 years
Land	Not depreciated

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

11. INTANGIBLE ASSETS**11.1 Trademarks**

	2022 Rm	2021 Rm
Opening net carrying value	98.3	104.8
Cost	131.2	131.2
Accumulated amortisation	(32.9)	(26.4)
Amortisation	(6.5)	(6.5)
Closing net carrying value	91.8	98.3
Cost	131.2	131.2
Accumulated amortisation	(39.4)	(32.9)

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.

11.2 Software

	2022 Rm	2021 Rm
Opening net carrying value	15.9	15.8
Cost	65.8	59.2
Accumulated amortisation	(49.9)	(43.4)
Additions	7.4	6.6
Amortisation	(7.8)	(6.5)
Closing net carrying value	15.5	15.9
Cost	73.2	65.8
Accumulated amortisation	(57.7)	(49.9)

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.

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

12. GOODWILL

	2022 Rm	2021 Rm
Opening net carrying value	182.4	187.6
Impairment	(31.4)	–
Write-off	–	(5.9)
Other	–	0.7
Closing net carrying value	151.0	182.4
Cost	182.4	182.4
Accumulated impairment	(31.4)	–

Accounting policy

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

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

Significant accounting estimates and judgements

The closing balance relates to goodwill that arose on the acquisition of UFO in 2018.

The performance of the UFO segment was lower than expected during the second half of the financial year. 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. The valuer used the fair value less costs to sell method in both the current and prior year.

The fair value less costs to sell valuation approach includes the cash flows of the existing stores as well as the planned new store expansion over the five-year forecasted period.

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:

- The cash flow projections for UFO is assessed based on forecasted information that is informed by past experience of management and the expected performance of the segment.
- Sales growth for the next five years was based on existing stores (existing store growth being 7.3% (2021: 6.4%)) and planned store expansions with a 4.0% (2021: 6.0%) growth used in the terminal value.
- Earnings before interest, tax, depreciation and amortisation ("EBITDA") margin is in line with the three-year historic average margin of between 6.7% and 10.9% (2021: between 8.7% and 10.2%).
- Weighted average cost of capital ("WACC") was calculated at 19.1% (2021: 17.1%).
- A further marketability discount of 5.0% (2021: 5.0%) was applied to arrive at the enterprise value.

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

12. GOODWILL continued**Significant accounting estimates and judgements continued**

The recoverable amount of goodwill was assessed as follows:

	WACC-1% R'000	WACC R'000	WACC+1% R'000
2022			
Enterprise value	373 404	346 912	323 726
Operating assets other than goodwill	(195 901)	(195 901)	(195 901)
Recoverable amount	177 503	151 011	127 825

The recoverable amount was R151.0 million.

Therefore, an impairment charge of R31.4 million was recognised.

2021

Enterprise value	394 048	358 106	328 160
Operating assets other than goodwill	(135 819)	(135 819)	(135 819)
Recoverable amount	258 229	222 287	192 341

No impairment was required as the recoverable amount was R222.3 million.

Sensitivity of terminal growth assumption

As the terminal growth has a significant impact on the enterprise value, the sensitivity of this assumption is reflected below:

	3% R'000	4% R'000	5% R'000
2022			
Enterprise value	332 380	346 912	363 498
Operating assets other than goodwill	(195 901)	(195 901)	(195 901)
Recoverable amount	136 479	151 011	167 597

	5% R'000	6% R'000	7% R'000
2021			
Enterprise value	336 745	358 106	383 709
Operating assets other than goodwill	(135 819)	(135 819)	(135 819)
Recoverable amount	200 926	222 287	247 890

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

13. DEPRECIATION, AMORTISATION AND IMPAIRMENT

	Notes	2022 Rm	2021 Rm
13.1 Depreciation and amortisation			
Depreciation			
Right-of-use assets	9.2	232.4	239.7
Property, plant and equipment	10	81.1	50.6
Land and buildings		1.2	1.2
Vehicles		32.1	28.4
Furniture, fixtures and equipment		47.8	21.0
Amortisation			
Intangible assets	11	14.3	13.0
		327.8	303.3
13.2 Impairment/write-off			
Right-of-use assets	9.2	99.2	33.8
Goodwill	12	31.4	5.9
		130.6	39.7
Refer to below notes for the accounting policies and significant estimates and judgements:			
Depreciation			
Right-of-use assets	9		
Property, plant and equipment	10		
Amortisation			
Intangible assets	11		
Impairment/ write-off			
Right-of-use assets	9		
Goodwill	12		
Impairment of non-financial assets	24.1		

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

14. BORROWINGS, CASH AND NET FINANCE COSTS**14.1 Borrowings, banking facilities and cash****Interest-bearing borrowings**

	2022 Rm	2021 Rm
Short-term banking facilities	(80.8)	–
Cash-on-hand and deposits	308.1	447.0
Cash and cash equivalents	227.3	447.0
Available facilities		
Banking facilities	950.0	1 150.0
Domestic Medium-Term Note programme	2 000.0	2 000.0
	2 950.0	3 150.0
Available funds	3 177.3	3 597.0
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 6.1% (2021: 5.9%).	80.8	–
	80.8	–
The exposure of the group's borrowings to interest rate changes and the contractual repricing dates at the end of the reporting period are set out below in terms of years subsequent to reporting date:		
Variable interest rates:		
1 year	80.8	–
2 years	–	–
3 years	–	–
	80.8	–
The above borrowings are unsecured. The group has committed and overnight facilities with banks and financial institutions of R950 million (2021: R1 150 million) and has established a Domestic Medium-Term Note programme ("DMTN") in October 2013, under which the group can issue notes up to R2 billion.		

	Liabilities from financing activities		
	Banking facilities due within 1 year Rm	Banking facilities due after 1 year Rm	Total Rm
Net debt as at 1 April 2020	922.1	–	922.1
Cash flows	(936.4)	–	(936.4)
Interest payments which are presented as operating cash flows	14.3	–	14.3
Net debt as at 31 March 2021	–	–	–
Cash flows	79.4	–	79.4
Interest payments which are presented as operating cash flows	1.4	–	1.4
Net debt as at 31 March 2022	80.8	–	80.8

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

14. BORROWINGS, CASH AND NET FINANCE COSTS continued**14.1 Borrowings, banking facilities and cash** continued**Accounting policies**

Borrowings comprise committed facilities with banks and financial institutions and notes issued under a DMTN programme.

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-on-hand and deposits calculated utilising the effective interest rate method is recognised in the income statement as part of interest received.

Capital management

	2022 Rm	2021 Rm
Interest-bearing borrowings	1 031.1	805.8
Less: cash-on-hand and deposits	(308.1)	(447.0)
Net debt	723.0	358.8
Shareholders' equity	4 717.0	4 872.7
Gearing ratio	15.3	7.4

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-on-hand and deposits.

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 R34.6 million (2021: R47.6 million).

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

Financial institutions	2022		2021		2022 Rm	2021 Rm
	Long-term	Short-term	Long-term	Short-term		
FirstRand Bank	Ba2	NP	Ba2	NP	230.7	181.2
Absa	Ba2	NP	Ba2	NP	11.6	91.9
Investec	Ba2	NP	Ba2	NP	–	0.1
Standard Bank	Ba2	NP	Ba2	NP	0.1	39.3
Nedbank	Ba2	NP	Ba2	NP	60.0	67.9
Sanlam	Ba2	NP	Ba2	NP	–	61.2
Other					5.7	5.4
Total					308.1	447.0

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

14. BORROWINGS, CASH AND NET FINANCE COSTS continued**14.1 Borrowings, banking facilities and cash continued****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.

14.2 Net finance costs

	Note	2022 Rm	2021 Rm
Interest paid		(48.9)	(105.3)
Borrowings		(12.6)	(14.3)
Lease liabilities	9.1	(62.1)	(66.0)
Other		25.8*	(25.0)
Interest received – bank		14.4	17.2
Interest received – other		11.0	–
Foreign exchange losses		(5.1)	(42.1)
Net finance costs		(28.6)	(130.2)

* Included in this amount is a reversal of interest accrued in prior periods.

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.

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

14. BORROWINGS, CASH AND NET FINANCE COSTS continued**14.2 Net finance costs** continued**Interest rate risk continued**

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:

	2022 Rm	2021 Rm
Interest increases by 50 basis points	(0.3)	–
Interest decreases by 50 basis points	0.3	–

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, 32.8% (2021: 37.0%) 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 loss Rm
2022					
US Dollar	Less than 6 months	Rate at R15.47	11.4	175.7	7.9
2021					
US Dollar	Less than 6 months	Rate at R16.19	15.3	237.2	8.1

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:

	2022 Rm	2021 Rm
Currency appreciates by 10%	12.7	17.1
Currency depreciates by 10%	(12.7)	(17.1)

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

15. CAPITAL MANAGEMENT**15.1 Earnings**

	2022 Cents	2021 Cents
Earnings per share		
Earnings per share	730.7	576.4
Diluted earnings per share	709.9	565.3
Headline earnings per share		
Headline earnings per share	848.7	616.5
Diluted headline earnings per share	824.5	604.6

	Gross Rm	Income tax effect Rm	Net Rm
Headline earnings			
2022			
Attributable earnings	483.1	–	483.1
Profit on disposal of fixed assets	(17.7)	3.7	(14.0)
Impairment of right-of-use assets	99.2	(28.6)	70.6
Goodwill impairment	31.4	–	31.4
Profit on scrapping of fixed assets due to civil unrest	(14.0)	4.0	(10.0)
Scrapping of assets	9.8	(2.7)	7.1
Compensation from insurers	(23.8)	6.7	(17.1)
Headline earnings	582.0	(20.9)	561.1
2021			
Attributable earnings	432.9	–	432.9
Profit on disposal of fixed assets	(0.1)	–	(0.1)
Impairment of right-of-use assets	33.8	(9.5)	24.3
Goodwill write-off	5.9	–	5.9
Headline earnings	472.5	(9.5)	463.0

15.2 Dividends

	2022 Cents	2021 Cents
Dividends paid per share		
Final dividend 2021 (2020)	195.0	65.0
Interim dividend 2022 (2021)	195.0	133.0
	390.0	198.0
Dividends declared per share		
Interim dividend 2022 (2021)	195.0	133.0
Final dividend 2022 (2021)	218.0	195.0
	413.0	328.0

	2022 Rm	2021 Rm
Dividends paid		
Dividend number 32 declared on 25 August 2020 and paid on 21 September 2020	–	51.5
Dividend number 33 declared on 25 November 2020 and paid on 25 January 2021	–	98.4
Dividend number 34 declared on 27 May 2021 and paid on 26 July 2021	131.7	–
Dividend number 35 declared on 24 November 2021 and paid on 24 January 2022	128.6	–
Dividends received on treasury shares		
Lewis Employee Share Incentive Scheme Trust	(6.1)	(2.9)
	254.2	147.0

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS** CONTINUED

for the year ended 31 March 2022

15. CAPITAL MANAGEMENT continued**15.3** Number of shares

	2022 000s	2021 000s
Weighted average number of shares		
Weighted average shares for earnings and headline earnings per share	66 112	75 109
Dilution resulting from share awards outstanding	1 944	1 471
Weighted average shares for diluted earnings and headline earnings per share	68 056	76 580
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 ordinary shares in issue at the beginning of the year	71 536	76 899
Shares repurchased	(8 756)	(5 363)
Number of shares issued at end of year	62 780	71 536
Treasury shares held by:		
Lewis Employee Share Incentive Scheme Trust	(108)	(27)
Effective number of shares in issue	62 672	71 509

15.4 Equity

	2022 Rm	2021 Rm
Share capital and premium		
Share capital	1.0	1.0
Share premium	1 563.7	1 916.9
Reverse acquisition reserve	(2 123.1)	(2 123.1)
Cost of cancelled shares	559.3	206.1
	0.9	0.9
Opening balance	0.9	0.9
Cost of own shares acquired	(353.2)	(112.6)
Transfer of cost of cancelled shares	353.2	112.6
	0.9	0.9
Treasury shares		
Opening balance	(0.4)	(1.0)
Cost of own shares acquired	(55.1)	(23.0)
Share awards to employees	51.8	23.6
	(3.7)	(0.4)
Treasury shares		
Lewis Employee Share Incentive Scheme Trust	3.7	0.4
	3.7	0.4

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

15. CAPITAL MANAGEMENT continued**15.4 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 23 October 2020.	4 021 216	33.89	136.3
In terms of the general authority granted by shareholders at the special general meeting held on 5 August 2021.	1 554 525	42.17	65.6
In terms of the general authority granted by shareholders at the annual general meeting held on 22 October 2021.	3 180 459	47.60	151.3
	8 756 200		353.2

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.

Treasury shares

The Lewis Employee Share Incentive Scheme Trust effectively holds 108 249 shares (2021: 27 009 shares), all of which will be utilised to cover share awards granted to executives.

15.5 Beneficial shareholders

According to the company's register of disclosures of beneficial interests made by registered shareholders acting in a nominee capacity, the following entities owned in excess of 5% of the company's shares:

	2022		2021	
	Number of shares Total	% holding	Number of shares Total	% holding
Coronation Balanced Plus Fund (SA)	3 514 518	5.60	3 684 418	5.15
Corolife Special Opportunities Portfolio (SA)	3 088 275	4.92	3 387 269	4.74

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS** CONTINUED

for the year ended 31 March 2022

15. CAPITAL MANAGEMENT continued

15.6 Other reserves

	Fair value reserve Rm	Foreign currency translation reserve Rm	Share-based payments reserve Rm	Total Rm
2022				
Opening balance	(28.0)	14.3	47.3	33.6
Fair value adjustments of FVOCI debt investments	9.0			9.0
Movement in foreign currency translation reserve		(12.9)		(12.9)
Transfer of share-based payments reserve to retained earnings on vesting			(39.4)	(39.4)
Equity-settled share-based payments			21.1	21.1
Closing balance	(19.0)	1.4	29.0	11.4
2021				
Opening balance	(46.7)	35.8	63.2	52.3
Fair value adjustments of FVOCI debt investments	19.1			19.1
Disposal of FVOCI debt investments recognised	(0.4)			(0.4)
Movement in foreign currency translation reserve		(21.5)		(21.5)
Transfer of share-based payments reserve to retained earnings on vesting			(40.2)	(40.2)
Equity-settled share-based payments			24.3	24.3
Closing balance	(28.0)	14.3	47.3	33.6

15.7 Retained earnings

	2022 Rm	2021 Rm
Opening balance	4 838.6	4 657.3
Net profit attributable to ordinary shareholders	483.1	432.9
Distribution to shareholders	(254.2)	(147.0)
Transfer of cost of cancelled shares	(353.2)	(112.6)
Transfer of share-based payments reserve to retained earnings on vesting	39.4	40.2
Retirement benefit remeasurements	6.5	(8.6)
Share awards to employees	(51.8)	(23.6)
Closing balance	4 708.4	4 838.6

Distribution by foreign subsidiaries of all their reserves at balance sheet date will potentially give rise to withholding taxes of R84.7 million (2021: R77.5 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 CONTINUED**

for the year ended 31 March 2022

16. TRADE AND OTHER PAYABLES

	2022 Rm	2021 Rm
Trade payables	151.6	175.6
Accruals and other payables	185.9	211.6
Employment provisions	176.8	150.1
Refund obligation	66.9	81.2
Restoration provision	35.8	32.4
Cash-settled share-based payments (refer to note 18.3.2)	68.0	23.6
	685.0	674.5

	Restoration Provision Rm	Employment Provisions Rm
2022		
Opening balance	32.4	150.1
Additions and modifications during the year	1.1	141.4
Utilised	(0.1)	(114.7)
Interest	2.4	–
Closing balance	35.8	176.8
2021		
Opening balance	37.1	106.5
Additions and modifications during the year	(7.9)	137.2
Utilised	(0.4)	(93.6)
Interest	3.6	–
Closing balance	32.4	150.1

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 6.2 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 right-of-use 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 18.3 to the financial statements.

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

17. PAYMENTS IN ADVANCE

	2022 Rm	2021 Rm
Opening balance	162.8	150.1
Revenue recognised in the period previously included in the opening balance	(108.0)	(100.0)
Liability raised during the current period	126.3	112.7
Closing balance	181.1	162.8

Payments in advance arise:

- in the case of a maintenance contract (refer note 6.2) 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 R124.0 million (2021: R108.0 million) of the transaction price allocated to the unsatisfied contracts as at 31 March 2022 will be recognised as revenue during the next reporting period and the remaining R57.1 million (2021: R54.8 million) during the following reporting period.

18. DIRECTORS AND EMPLOYEES**18.1 Employment costs**

	2022 Rm	2021 Rm
Salaries, wages, commissions and bonuses	1 254.3	1 129.3
Retirement benefit costs	76.6	70.8
Equity-settled share-based payments (refer note 18.3.1)	21.1	24.3
Cash-settled share-based payments (refer note 18.3.2)	47.3	19.3
Other employment costs	12.4	15.4
	1 411.7	1 259.1
Remuneration of key executives		
Salary	14.6	15.7
Bonus	20.4	10.4
Retirement and medical contributions	2.8	3.1
Gains on share awards vested (*)	27.8	10.3
	65.6	39.5

Key executives comprise the directors of Lewis Stores Proprietary Limited, the main operating subsidiary. Non-executive fees are disclosed in note 18.2.

(*) 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).

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

18. DIRECTORS AND EMPLOYEES continued**18.2 Directors' emoluments**

		2022 R'000	2021 R'000
Non-executive directors – fees as directors			
H Saven	- company	1 176	1 118
	- for subsidiary	348	321
Prof. F Abrahams	- company	923	878
	- for subsidiary	296	255
A Bodasing		685	652
D Motsepe		888	726
T Njikizana		685	607
D Westcott (Deceased 19 August 2021)	- company	447	886
	- for subsidiary	175	333
AJ Smart (Retired 2 April 2020)	- for subsidiary	–	21
		5 623	5 797
		Executive directors	
		2022 R'000	2021 R'000
		J Bestbier	J Enslin
		J Bestbier	J Enslin
All emoluments are paid by the subsidiary			
Salary		2 871	4 692
Bonuses paid during the year		4 034	6 541
Contributions to pension scheme		459	751
Contributions to medical aid		–	190
Gains on share awards		5 364	10 134
		12 728	22 308
		6 283	10 670
		Gains on share awards	
		2022	2021
		J Bestbier	J Enslin
		J Bestbier	J Enslin
Share awards vested		162 777	307 551
Offer date		30 June 2018	30 June 2018
Date vested		30 June 2021	30 June 2021
Market value on date of vesting		5 363 502	10 133 805
Gain on share awards		5 363 502	10 133 805
		1 481 691	2 730 555
		1 481 691	2 730 555
		Outstanding share awards - Equity-Settled Schemes	
		2022	2021
		J Bestbier	J Enslin
		J Bestbier	J Enslin
Lewis Short-Term and Long-Term Executive Performance Scheme			
30 June 2018 - Short-term award		–	–
		114 284	188 397
Lewis 2019 Executive Performance Scheme			
28 August 2020 - Short-term award		270 771	438 977
9 June 2021		128 769	210 794
		–	–
Lewis Executive Retention Scheme			
30 June 2018		–	–
		48 493	119 154
30 June 2019		70 258	115 816
		70 258	115 816
Lewis 2019 Executive Retention Scheme			
28 August 2020		63 635	102 147
9 June 2021		78 047	126 533
		–	–
		611 480	994 267
		567 441	964 491

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

18. DIRECTORS AND EMPLOYEES continued**18.2 Directors' emoluments** continued

In terms of the following schemes, the Trust holds the following invested shares on behalf of the above directors by virtue of the investment of their bonuses into the scheme:

Invested Shares	2022	2021
Lewis Executive Retention Scheme	102 340	194 555
Lewis 2019 Executive Retention Scheme	203 699	91 180

Outstanding Notional Shares - Cash-Settled Schemes	2022		2021	
	J Bestbier	J Enslin	J Bestbier	J Enslin
Lewis Cash-Settled Short-Term and Long-Term Executive Performance Scheme – New Scheme				
30 June 2019	116 217	187 347	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 10.

18.3 Share-based payments

	2022 Rm	2021 Rm
18.3.1 Equity-settled		
Value of services provided:		
In respect of share awards granted.	21.1	24.3

For further details of the equity-settled scheme, refer note 18.4.1.

Accounting policy

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

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:

		2022	2021
Weighted average share price	(R)	25.46	25.51
Weighted average expected volatility	(%)	96.5	91.8
Weighted average expected dividend yield	(%)	6.6	5.7
Weighted average risk-free rate (bond yield curve at date of grant)	(%)	7.2	8.4

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

18. DIRECTORS AND EMPLOYEES continued**18.3 Share-based payments** continued**18.3.2 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.

	2022 Rm	2021 Rm
Opening balance	23.6	4.3
Income statement charge before revaluation of liability	18.1	13.6
Revaluation of liability	29.2	5.7
Payments made	(2.9)	–
Closing balance	68.0	23.6

For further details of the cash-settled scheme, refer note 18.4.2

Accounting policy

The group recognises a liability for awards granted under the cash-settled scheme measured at fair value at the grant date. The fair value is expensed over the period until the vesting date, with a corresponding increase in the liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date. All changes in the fair value of the liability are recognised in employment costs.

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:

		2022	2021
Share price	(R)	47.00	30.71
Expected volatility	(%)	49.2	77.7
Expected dividend yield	(%)	6.7	6.9
Risk-free rate (bond yield curve at year-end)	(%)	6.5	8.0

18.4 Share incentive schemes (Equity and Cash-Settled)**18.4.1 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. 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 Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS** CONTINUED

for the year ended 31 March 2022

18. DIRECTORS AND EMPLOYEES continued**18.4 Share incentive schemes (Equity and Cash-Settled)** continued**18.4.1 Equity-settled Schemes** continued

	Lewis 2019 Executive Retention Scheme	Lewis 2019 Executive Performance Scheme
2022		
Beginning of year	292 241	1 148 374
Granted	485 417	549 496
Forfeited	(1 878)	–
Vested	(853)	–
End of year	774 927	1 697 870
Maximum awards available over the life of the scheme	1 500 000	2 250 000
Utilised for the scheme to date	775 780	1 697 870
Invested shares	426 613	
2021		
Beginning of year	–	–
Granted	292 241	1 148 374
Forfeited	–	–
Vested	–	–
End of year	292 241	1 148 374
Maximum awards available over the life of the scheme	1 500 000	2 250 000
Utilised for the scheme to date	292 241	1 148 374
Invested shares	161 245	
	Lewis Executive Retention Scheme	Lewis Long-Term and Short-Term Executive Performance
2022		
Beginning of year	878 386	1 053 059
Granted	–	–
Forfeited	(3 284)	–
Vested	(441 564)	(1 053 059)
End of year	433 538	–
Maximum awards available over the life of the scheme	1 000 000	3 500 000
Utilised for the scheme to date	986 396	3 377 174
Invested shares	238 767	
2021		
Beginning of year	887 688	2 490 328
Granted	–	–
Forfeited	(9 302)	(13 953)
Vested	–	(1 423 316)
End of year	878 386	1 053 059
Maximum awards available over the life of the scheme	1 000 000	3 500 000
Utilised for the scheme to date	989 680	3 377 174
Invested shares	483 860	

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

18. DIRECTORS AND EMPLOYEES continued**18.4 Share incentive schemes (Equity and Cash-Settled)** continued**18.4.1 Equity-settled Schemes** continued

The weighted average share price at vesting date was R32.95 (2021: R12.44).

The weighted average remaining contractual life for share options outstanding at the end of the period is 1.5 years (2021: 1.3 years).

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

Lewis 2019 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.

The percentage of the cash-based performance bonus that can be invested in the scheme is at the discretion of the remuneration committee with the minimum percentage being 25% and the maximum percentage being 100%.

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.

The group is entitled to a clawback of shares through the repurchase and cancellation of shares held by the participant and /or equivalent in money where the shares have not been repurchased and cancelled where the executive:

- Is dismissed for misconduct involving fraud, misrepresentation and /or dishonesty and fails materially to perform his duties.
- Is accused of serious misconduct that would warrant dismissal, he or she resigns from his /her employment prior to the outcome of the disciplinary proceedings.

Lewis 2019 Executive Performance Scheme

Awards made under this scheme 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.

The scheme allows for the vesting at certain percentages where the performance target has not been met. The table below sets out the percentages:

Equal or greater than 100% of target	100% vested
97.5% to 100% of target	25% vested
95% to 97.5% of target	10% vested
Less than 95% of target	No vesting

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

18. DIRECTORS AND EMPLOYEES continued**18.4 Share incentive schemes (Equity and Cash-Settled)** continued**18.4.1 Equity-settled Schemes** continued**Lewis 2019 Executive Performance Scheme continued**

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.
- Gearing ratio.

There are no long-term awards issued under this scheme.

The group is entitled to a clawback of shares through the repurchase and cancellation of shares held by the participant and /or equivalent in money where the shares have not been repurchased and cancelled where the executive:

- Is dismissed for misconduct involving fraud, misrepresentation and /or dishonesty and fails materially to perform his duties.
- Is accused of serious misconduct that would warrant dismissal, he or she resigns from his/ her employment prior to the outcome of the disciplinary proceedings.

Lewis Executive Retention Scheme

The terms of this scheme are substantively the same as the Lewis 2019 Executive Retention Scheme except that the following clauses are not included:

- The percentage of the cash-based performance bonus that can be invested in the scheme is at the discretion of the remuneration committee with the minimum percentage being 25% and the maximum percentage being 100%. Under this scheme, 100% of the bonus can be invested by the selected participants.
- The group is entitled to a clawback of shares through the repurchase and cancellation of shares held by the participant and /or equivalent in money where the shares have not been repurchased and cancelled where the executive:
 - Is dismissed for misconduct involving fraud, misrepresentation and /or dishonesty and fails materially to perform his duties.
 - Is accused of serious misconduct that would warrant dismissal, he or she resigns from his /her employment prior to the outcome of the disciplinary proceedings.

Lewis Long-Term and Short-Term Executive Performance Scheme ("LSPS")

The terms of this scheme are substantively the same as the Lewis 2019 Executive Performance Scheme except for the following clause which is not included:

- The group is entitled to a clawback of shares through the repurchase and cancellation of shares held by the participant and /or equivalent in money where the shares have not been repurchased and cancelled where the executive:
 - Is dismissed for misconduct involving fraud, misrepresentation and /or dishonesty and fails materially to perform his duties.
 - Is accused of serious misconduct that would warrant dismissal, he or she resigns from his/ her employment prior to the outcome of the disciplinary proceedings.
- The scheme allows for the vesting at certain percentages where the performance target has not been met. The table below sets out the percentages:

Equal or greater than 100% of target	100% vested
97.5% to 100% of target	25% vested
95% to 97.5% of target	10% vested
Less than 95% of target	No vesting

Under this scheme, the performance target was either met resulting in full vesting or not which resulted in no vesting at all.

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

18. DIRECTORS AND EMPLOYEES continued**18.4 Share incentive schemes (Equity and Cash-Settled)** continued**18.4.2 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 18.4.1.

All awards are short-term awards 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	2022	2021
Beginning of year	2 182 538	1 157 435
Granted	529 439	1 037 873
Forfeited	(75 379)	(12 770)
Vested	(113 963)	–
End of year	2 522 635	2 182 538

The weighted average remaining contractual life for share options (“notional shares”) outstanding at the end of the period is 1.1 years (2021: 1.8 years).

18.5 Retirement benefits**18.5.1 Retirement plans and benefits**

The group operates a number of retirement funds. All retirement fund assets are held separate from the group’s assets.

The number of employees on these plans are as follows:	Type of fund	Number of Employees	
		2022	2021
Lewis Stores Group Pension Fund ⁽¹⁾	Defined benefit fund	39	52
Lewis Stores Retirement Pension Fund ⁽²⁾	Defined benefit fund	29	31
SACCAWU Provident Fund	Defined contribution fund	2 274	2 235
Lewis Stores Provident Fund	Defined contribution fund	4 104	4 121
Lewis Stores Namibia Orion Pension Fund	Defined contribution fund	677	674
Alexander Forbes Botswana Umbrella Pension Fund	Defined contribution fund	248	245
Alliance Lesotho Umbrella Pension Fund	Defined contribution fund	187	–
NMG Umbrella SmartFund	Defined contribution fund	52	–

⁽¹⁾ The Lewis Stores Group Pension Fund was closed to new members on 1 July 1997 and is registered under the Pension Funds Act No. 24 of 1956.

⁽²⁾ The Lewis Stores Retirement Fund is used for executive management and is registered under the Pension Funds Act No. 24 of 1956.

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 2022 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 CONTINUED**

for the year ended 31 March 2022

18. DIRECTORS AND EMPLOYEES continued**18.5 Retirement benefits** continued**18.5.2 Effects on comprehensive income**

	2022 Rm	2021 Rm
Effect on income statement:		
Defined benefit retirement plans (refer note 18.5.4)	6.3	3.5
Post-retirement healthcare plans (refer note 18.5.5)	9.4	9.0
Defined contribution plans (refer note 18.5.6)	60.9	58.3
	76.6	70.8
Actuarial gains and (losses) included in other comprehensive income:		
Defined benefit retirement plans	4.1	(6.9)
Post-retirement healthcare plans	5.0	(5.0)
	9.1	(11.9)
Actuarial gains and (losses) due to:		
Demographic assumptions	5.4	7.3
Financial assumptions	48.9	(37.8)
Experience adjustments	(45.3)	18.6
	9.1	(11.9)
18.5.3 Amounts recognised in the balance sheet		
Retirement benefit asset (refer note 18.5.4)	(109.8)	(105.4)
Present value of unfunded obligations as a liability (refer note 18.5.4)	1.5	2.0
Present value of post-retirement healthcare benefits (refer note 18.5.5)	75.8	77.1
Retirement benefit liability	77.3	79.1
18.5.4 Defined benefit retirement plans		
Present value of funded obligations	491.0	431.5
Fair value of plan assets	(684.9)	(598.8)
Asset ceiling limit applied in terms of IAS 19	84.1	61.9
Retirement benefit asset	(109.8)	(105.4)
Total movement in retirement benefit asset		
Present value at the beginning of the year	(105.4)	(106.8)
Income statement charge	6.1	3.3
Current service cost	13.2	15.2
Past service cost	–	–
Risk and expenses	1.6	1.8
Net interest income	(8.7)	(13.7)
Actuarial (gains) and losses included in other comprehensive income	(3.6)	6.9
Contributions paid during the year	(6.9)	(8.8)
Present value at the end of the year	(109.8)	(105.4)
Total movement in unfunded obligations as a liability		
Present value at the beginning of the year	2.0	2.1
Income statement charge - interest	0.2	0.2
Actuarial (gains) and losses included in other comprehensive income	(0.5)	–
Contributions paid during the year	(0.2)	(0.3)
Present value at the end of the year	1.5	2.0

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

18. DIRECTORS AND EMPLOYEES continued**18.5 Retirement benefits** continued**18.5.4 Defined benefit retirement plans** continued

	2022 Rm	2021 Rm
Total present value of defined benefit obligations		
Beginning of the year	431.5	490.3
Current service cost	13.2	15.2
Past service cost	–	–
Interest cost	43.1	45.0
Employee contributions	0.6	0.6
Benefit payments	(51.9)	(77.8)
Actuarial (gains) and losses included in other comprehensive income	54.5	(41.8)
End of the year	491.0	431.5
Fair value of defined benefit plan assets		
Beginning of the year	598.8	624.4
Employee contributions	0.6	0.6
Employer contributions	6.9	8.8
Interest income	58.6	61.2
Risk and expenses	(1.6)	(1.8)
Benefit payments	(51.9)	(77.8)
Actuarial (gains) and losses included in other comprehensive income	73.5	(16.6)
End of the year	684.9	598.8
Asset ceiling limit applied in terms of IAS 19		
Beginning of the year	(61.9)	(27.3)
Interest income	(6.8)	(2.5)
Actuarial (gains) and losses included in other comprehensive income	(15.4)	(32.1)
End of the year	(84.1)	(61.9)
Plan assets		
The major categories of plan assets as a percentage of the fair value of the total plan assets are as follows:		
	2022	2021
Cash (%)	7.1	8.2
Bonds – Listed (%)	17.4	18.6
Equity – Listed (%)	47.0	43.7
International equity – Listed (%)	22.9	23.8
International bonds – Listed (%)	0.8	1.0
Other (%)	4.8	4.7
	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 2022.

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 R84.1 million (2021: R61.9 million).

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

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

18. DIRECTORS AND EMPLOYEES continued**18.5 Retirement benefits** continued**18.5.4 Defined benefit retirement plans** continued**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.

Significant accounting estimates and judgements

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

Principal actuarial assumptions:		2022	2021
Discount rate	(%)	10.5	10.4
Inflation rate	(%)	6.9	6.4
Future salary increases	(%)	7.9	7.4
Future pension increases	(%)	6.9	6.4

The weighted average duration of the actuarial liability is 12.8 years (2021: 12.1 years).

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

18. DIRECTORS AND EMPLOYEES continued

18.5 Retirement benefits continued

18.5.4 Defined benefit retirement plans continued

Significant accounting estimates and judgements continued

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	
		2022	2021
Discount rate	+ 1	(11.0)	(10.3)
	- 1	12.4	11.6
Salary increases	+ 1	3.0	2.3
	- 1	(3.6)	(3.0)
Pension increases	+ 1	8.6	8.4
	- 1	(8.4)	(8.2)
Post-retirement mortality	+ 1 year	(3.0)	(2.7)
	- 1 year	2.1	2.1

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.

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:

		2022	2021
Male	(years)	12.5	11.9
Female	(years)	14.6	13.8
Actual return on plan assets	(%)	21.0	7.0

	2022 Rm	2021 Rm
Expected contributions to the defined benefit plans for the next annual reporting period	8.5	7.8

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** CONTINUED

for the year ended 31 March 2022

18. DIRECTORS AND EMPLOYEES continued

18.5 Retirement benefits continued

18.5.5 Post-retirement healthcare benefits

	2022 Rm	2021 Rm
Present value of post-retirement healthcare benefits liability	75.8	77.1
Movement in post-retirement healthcare liability		
Present value of liability at the beginning of the year	77.1	68.6
Charged to income statement	9.4	9.0
Current service cost	0.6	0.5
Interest cost	8.8	8.5
Actuarial (gains) and losses included in other comprehensive income	(5.0)	5.0
Employer benefit payments	(5.7)	(5.5)
Post-retirement healthcare benefits liability	75.8	77.1

The liability was valued as at 31 March 2022 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.

Significant accounting estimates and judgements

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

Principal actuarial assumptions:		2022	2021
Health care inflation rate	(%)	8.4	9.0
CPI inflation	(%)	6.4	7.0
Discount rate	(%)	11.4	11.9
Average retirement age	(years)	65	63

The weighted average duration of the actuarial liability is 11.6 years (2021: 11.6 years).

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

18. DIRECTORS AND EMPLOYEES continued

18.5 Retirement benefits continued

18.5.5 Post-retirement healthcare benefits continued

Significant accounting estimates and judgements continued

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	
		2022	2021
Discount rate	+ 1	(9.2)	(9.1)
	- 1	11.0	10.9
Healthcare cost	+ 1	11.1	10.9
	- 1	(9.3)	(9.3)
Expected retirement age	+ 1 year	(1.4)	(1.7)
	- 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.

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.

18.5.6 Defined contribution plans

	2022 Rm	2021 Rm
Defined contribution plan costs	60.9	58.3

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 CONTINUED**

for the year ended 31 March 2022

19. TAXATION

	2022 Rm	2021 Rm
Taxation per income statement		
South Africa	165.1	161.4
Foreign	25.7	10.1
	190.8	171.5
Comprising:		
Normal taxation	160.6	124.3
Current year	150.9	123.6
Prior year	9.7	0.7
Deferred taxation	30.2	47.2
Current year	19.3	57.0
Tax rate change	2.2	–
Prior year	8.7	(9.8)
	190.8	171.5
Tax rate reconciliation		
Profit before taxation	673.9	604.4
Taxation calculated at a tax rate of 28%	188.7	169.2
Differing tax rates in foreign countries	4.1	4.3
Disallowances ⁽¹⁾	36.0	37.1
Exemptions ⁽²⁾	(58.6)	(30.0)
Prior years	18.4	(9.1)
Tax rate change	2.2	–
Taxation per income statement	190.8	171.5
Effective tax rate (%)	28.3	28.4
⁽¹⁾ Disallowances relate to goodwill impairment and share based payments.		
⁽²⁾ Exemptions include the Namibian insurance cell captive profit, employment allowances and interest accrual reversals.		
Taxation disclosed as:		
Current tax asset	(28.1)	(48.8)
Current tax liability	86.0	84.8
	57.9	36.0
Taxation paid per cash flow statement		
Amount (payable)/receivable at the beginning of the year	(36.0)	33.0
Amount charged to the income statement for normal tax	(160.6)	(124.3)
Non-cash flow movement	34.5	–
Amount payable at the end of the year	57.9	36.0
	(104.2)	(55.3)
Deferred taxation as per balance sheet		
Balance at the beginning of the year	(91.6)	(142.8)
Movement for the year attributable to:		
Income statement debit	30.2	47.2
Deferred tax on fair value adjustment in other comprehensive income	3.5	7.3
Deferred tax on retirement benefit remeasurements	2.6	(3.3)
Balance at the end of the year	(55.3)	(91.6)
This balance comprises:		
Capital allowances (including right-of-use assets)	280.9	238.1
FVOCI debt investments	(7.1)	(10.9)
Lease liabilities	(269.1)	(227.4)
Debtors' allowances	23.2	9.7
Income and expense recognition	(4.1)	(18.5)
Assessed loss	(6.5)	(6.0)
Other provisions	(72.6)	(76.6)
Balance at the end of the year	(55.3)	(91.6)
Disclosed as:		
Deferred tax asset	(82.7)	(112.2)
Deferred tax liability	27.4	20.6
	(55.3)	(91.6)

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

19. TAXATION continued

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.

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.

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

20. CASH FLOW FROM OPERATIONS

	Notes	2022 Rm	2021 Rm
20.1 Cash flow from trading		1 019.5	1 053.3
Operating profit		667.9	695.5
<i>Adjusted for:</i>			
Share-based payments		68.4	43.6
Depreciation and amortisation	13.1	327.8	303.3
Impairment/ write-off	13.2	130.6	39.7
Profit on disposal of fixed assets		(17.7)	(0.1)
Profit on scrapping of fixed assets due to civil unrest	21	(14.0)	–
Movement in debtors' impairment provision	4.2	(123.3)	(110.3)
Movement in other provisions		(9.2)	43.7
Other non-cash flow movements		(11.0)	37.9
Included in cash flow from trading is interest earned on trade receivables of R1 398.9 million (2021: R1 421.8 million) as set out in note 3.			
20.2 Changes in working capital		(156.2)	(138.7)
Increase in inventories		(49.8)	(211.7)
(Increase)/decrease in trade and other receivables		(58.1)	30.3
(Decrease)/increase in trade and other payables		(45.7)	11.7
Increase in payments in advance		18.3	12.7
(Decrease)/increase in insurance liabilities		(20.9)	18.3
20.3 Interest paid per cash flow statement		(74.7)	(90.4)
Interest paid per the income statement		(48.9)	(105.3)
Non-cash flow movement		(25.8)	14.9

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

21. IMPACT OF CIVIL UNREST IN SOUTH AFRICA

The widespread violence and looting experienced in KwaZulu-Natal and parts of Gauteng during July 2021 had a significant impact on the group's store operations during the current reporting period.

A total of 57 stores were looted and damaged, including 53 stores in the "Traditional" segment across the Lewis, Beares and Best Home & Electric brands and 4 UFO stores. At the height of the unrest, over 260 stores across the group were closed as a precautionary measure to ensure the safety of employees and customers, and to minimise losses.

By 31 March 2022, 52 stores (49 Traditional and 3 UFO) had been reopened following their restoration. The remaining 5 stores (4 Traditional and 1 UFO) are trading from temporary premises whilst damages are being repaired.

The group has adequate South African Special Risks Insurance Association (SASRIA) cover for material damage losses arising from the riot action. The year-end results includes inventory write-offs, losses relating to scrapping of assets and the related insurance recoveries.

The group's material damage insurance claim amounted to approximately R78.8 million (excluding VAT), including stock losses of R48.1 million and R30.7 million for damaged assets. A total of R71.9 million of the claim has been received and recognised as insurance recoveries in the results for the reporting period.

The group has separate cover for business interruption losses and has submitted a claim for the losses incurred, however, this is still being finalised.

The table below shows the impact on the financial statements of the abovementioned items:

	2022 Rm
Impact on the income statement	
Cost of merchandise sales	-
Inventory write-off	48.1
Inventory insurance recoveries	(48.1)
	(14.0)
Impairments and capital items	
Losses due to scrapping of assets	9.8
Insurance recoveries due to damaged assets	(23.8)

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

22. 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 the 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.
- 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 R176.9 million (2021: R193.1 million), which includes a long-term loan account. The currency exposure is managed by keeping the net investment at a minimum practical level by remitting cash to South Africa on a regular basis through loan repayments and dividends.

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

	2022 Rm	2021 Rm
Currency appreciates by 10%	16.1	17.7
Currency depreciates by 10%	(16.1)	(17.7)

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

23. INTEREST IN SUBSIDIARY COMPANIES

	Nature of business	2022		2021	
		Carrying value of subsidiaries Rm	Percentage holding	Carrying value of subsidiaries Rm	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				
Lifestyle Living (Pty) Ltd	D				
Incorporated in Botswana					
Lewis Stores (Botswana) (Pty) Ltd	F				
Lewis Insurance Services (Botswana) (Pty) Ltd	D				
Lewis Management Services (Botswana) (Pty) Ltd ⁽¹⁾	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		259.6		238.5	
Loans to subsidiaries:					
Amounts due to subsidiary		(9.5)		(7.5)	
Interest in subsidiaries		3 050.1		3 031.0	

F Furniture retailer

I Insurance company

D Dormant company

⁽¹⁾ Company is in the process of deregistration.

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

24. OTHER NOTES**24.1 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.

24.2 New standards and interpretations not yet effective**IFRS 17 Insurance Contracts**

The IASB issued IFRS 17, Insurance Contracts, as a replacement to current standard, IFRS 4, which allows insurers to use their local GAAP. IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements.

Under IFRS 17, the general model requires entities to measure an insurance contract on initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period.

Aside from this general model, the standard provides the premium allocation approach. This simplified approach is applicable for certain types of contracts, including those with a coverage period of one year or less.

Following comprehensive testing and assessments performed by the group, together with the assistance of an IFRS 17 implementation partner, the conclusion was reached that both the South African direct insurance business as well as the inwards reinsurance business in Botswana, Lesotho and Eswatini, are likely to be eligible to utilise the premium allocation approach.

The new standard will become effective for the 2024 financial year with full retrospective adoption, therefore requiring the restatement of comparatives from 1 April 2022.

Lewis Group Limited:**CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

for the year ended 31 March 2022

24. OTHER NOTES continued**24.3 Other income statement disclosures**

		2022 Rm	2021 Rm
Service fees received on accounts receivable (refer note 6.1)		358.7	361.2
Fees payable:			
Investment management fee – insurance investments		1.5	1.5
Outsourcing of IT function		120.2	102.0
		121.7	103.5
Auditors' remuneration			
Audit fees – current year		6.0	5.0
Other services – Audit-related		0.8	0.3
– Non-audit related		1.3	0.1
		8.1	5.4
Occupancy costs – Included in other operating costs		139.9	126.2
Impairments and capital items	Notes	2022 Rm	2021* Rm
Impairment of right-of-use assets	13.1	99.2	33.8
Impairment/write-off of goodwill	13.2	31.4	5.9
Profit on disposal of fixed assets		(17.7)	(0.1)
Profit on scrapping of fixed assets due to civil unrest	21	(14.0)	–
Losses due to scrapping of assets		9.8	–
Insurance recoveries due to damaged assets		(23.8)	–
		98.9	39.6

* In the prior year, these costs were included under operating costs.

This includes the before tax effect of all re-measurements and capital items excluded from headline earnings per share in accordance with the guidance contained in SAICA Circular 1/2021: Headline Earnings.

24.4 Covid-19 lockdown and its impact on the group's trading

The government-imposed lockdown restrictions in April and May 2020 had a material impact on the group's trading performance in the comparative period. It was estimated by management that the group lost approximately R360 million in merchandise sales and R250 million in customer account collections.

The lockdown restrictions has had an ongoing impact on the business as a whole in the current reporting period, however, the continued resilience of the business model as well as the group's strong balance sheet adequately supports the group's ability to continue as a going concern for the foreseeable future.

24.5 Post-balance sheet events

During April 2022, the KwaZulu-Natal province experienced widespread flooding as a result of heavy rainfall. As at the date of reporting, management's assessment is that there has been no direct material impact to the group's operations.

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

Lewis Group Limited:**COMPANY STATEMENT OF COMPREHENSIVE INCOME**

for the year ended 31 March 2022

	Notes	2022 Rm	2021 Rm
Revenue - Investment income	2	640.7	301.4
Operating costs		(10.0)	(9.7)
Profit before taxation	3	630.7	291.7
Taxation	4	(0.4)	(0.3)
Net profit and comprehensive income attributable to ordinary shareholders		630.3	291.4

COMPANY BALANCE SHEET

as at 31 March 2022

	Notes	2022 Rm	2021 Rm
Assets			
Non-current assets			
Interest in subsidiaries	5	3 059.6	3 038.5
Current assets			
Deposits at bank	8	77.8	53.0
Total assets		3 137.4	3 091.5
Equity and liabilities			
Capital and reserves			
Share capital and premium	6	1 564.7	1 917.9
Share-based payments reserve		29.0	47.3
Retained earnings		1 532.1	1 116.6
		3 125.8	3 081.8
Current liabilities			
Trade and other payables		2.1	2.2
Amounts due to subsidiary	10	9.5	7.5
		11.6	9.7
Total equity and liabilities		3 137.4	3 091.5

Lewis Group Limited:

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2022

	Share capital and premium Rm	Share-based payments reserve Rm	Retained earnings Rm	Total Rm
Balance as at 1 April 2020	2 030.5	63.2	934.9	3 028.6
Net profit attributable to ordinary shareholders			291.4	291.4
Dividends paid			(149.9)	(149.9)
Capital contribution in respect of share-based payments		24.3		24.3
Transfer to retained earnings on vesting of share awards		(40.2)	40.2	–
Share repurchase	(112.6)			(112.6)
Balance as at 31 March 2021	1 917.9	47.3	1 116.6	3 081.8
Net profit attributable to ordinary shareholders			630.3	630.3
Dividends paid			(254.2)	(254.2)
Capital contribution in respect of share-based payments		21.1		21.1
Transfer to retained earnings on vesting of share awards		(39.4)	39.4	–
Share repurchase	(353.2)			(353.2)
Balance as at 31 March 2022	1 564.7	29.0	1 532.1	3 125.8

COMPANY STATEMENT OF CASH FLOW

for the year ended 31 March 2022

	Note	2022 Rm	2021 Rm
Cash flow from operating activities			
Cash utilised in operations	7	(10.1)	(9.5)
Dividends received		639.1	300.4
Interest received		1.6	1.0
Taxation paid		(0.4)	(0.3)
		630.2	291.6
Cash flow from financing activities			
Dividends paid		(254.2)	(149.9)
Proceeds from loan to subsidiary		2.0	2.0
Share repurchase		(353.2)	(112.6)
		(605.4)	(260.5)
Net increase in cash and cash equivalents		24.8	31.1
Cash and cash equivalents at the beginning of the year		53.0	21.9
Cash and cash equivalents at the end of the year		77.8	53.0

Lewis Group Limited:**NOTES TO THE COMPANY FINANCIAL STATEMENTS**

for the year ended 31 March 2022

1. ACCOUNTING POLICIES

The financial statements have been prepared on the historical cost basis and in accordance with 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 annual financial statements:

	Note reference
Borrowings	14.1
Share capital and premium	15.4
Share-based payments	18.3
Taxation	19
Interest in subsidiary	22

The company holds the following financial instruments:

	Note reference
Deposits at bank	8
Trade and other payables	
Amounts due to subsidiary	10

2. REVENUE - INVESTMENT INCOME

	2022 Rm	2021 Rm
Dividends received from subsidiary - Lewis Stores Proprietary Limited	639.1	300.4
Interest received - Banks	1.6	1.0
	640.7	301.4

Accounting policy

Investment income is recognised as follows:

- Interest on investments is recognised on a time proportion basis taking into account the effective interest rate method on the assets.
- Dividends are recognised when the right to receive payment is established.

3. OPERATING PROFIT

	2022 R'000	2021 R'000
Stated after:		
Audit fees - current year	110.0	124.0
Directors' fees (refer note 18.2 to the consolidated annual financial statements)	4 804.0	4 867.0

4. TAXATION

	2022 Rm	2021 Rm
Taxation	0.4	0.3
The rate of taxation on profit is reconciled as follows:		
Profit before taxation	630.7	291.7
Taxation calculated at a tax rate of 28%	176.6	81.7
Exempt income (dividends received)	(179.0)	(84.1)
Disallowed expenses	2.8	2.7
Taxation per statement of comprehensive income	0.4	0.3

Lewis Group Limited:**NOTES TO THE COMPANY FINANCIAL STATEMENTS**

CONTINUED

for the year ended 31 March 2022

5. INTEREST IN SUBSIDIARY

	2022 Rm	2021 Rm
Shares at cost	2 800.0	2 800.0
Capital contribution for share-based payments	259.6	238.5
	3 059.6	3 038.5

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

6. SHARE CAPITAL AND PREMIUM

	2022 Rm	2021 Rm
Authorised		
150 000 000 ordinary shares of 1c each	1.5	1.5
Issued		
62 779 713 (2021: 71 535 913) ordinary shares of 1c each	1.0	1.0
Share premium	1 563.7	1 916.8
Total share capital and premium	1 564.7	1 917.8

7. CASH UTILISED IN OPERATIONS

	2022 Rm	2021 Rm
Profit before taxation	630.7	291.7
Dividends received	(639.1)	(300.4)
Interest received – Banks	(1.6)	(1.0)
(Decrease)/ increase in trade and other payables	(0.1)	0.2
	(10.1)	(9.5)

8. DEPOSITS AT BANK

	2022 Rm	2021 Rm
At amortised cost	77.8	53.0

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	2022		2021		2022 Rm	2021 Rm
	Long-term	Short-term	Long-term	Short-term		
FirstRand Bank	Ba2	NP	Ba2	NP	77.8	53.0
Total					77.8	53.0

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:**NOTES TO THE COMPANY FINANCIAL STATEMENTS**

CONTINUED

for the year ended 31 March 2022

9. GUARANTEES

The company guarantees banking facilities to the value of R950 million (2021: R1 150 million) for its subsidiaries at various financial institutions. Based on a review of the cash flows forecast for the 2023 and 2024 financial year, 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 R80.8 million (2021: Rnil). Full details of the facilities are provided in note 14.1 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 the group's central treasury function.

Maturity profile of financial liabilities

The maturity profiles of undiscounted financial liabilities are as follows:

	0 to 12 months Rm	1 to 2 years Rm	3 to 5 years Rm	>5 years Rm	Total Rm
2022					
Trade and other payables	(2.1)	–	–	–	(2.1)
Amounts due to subsidiary	(9.5)	–	–	–	(9.5)
Financial guarantees ⁽¹⁾	(950.0)	–	–	–	(950.0)
	(961.6)	–	–	–	(961.6)
2021					
Trade and other payables	(2.2)	–	–	–	(2.2)
Amounts due to subsidiary	(7.5)	–	–	–	(7.5)
Financial guarantees ⁽¹⁾	(1 150.0)	–	–	–	(1 150.0)
	(1 159.7)	–	–	–	(1 159.7)

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

10. RELATED PARTY

	2022 Rm	2021 Rm
Amounts due to subsidiary		
Lewis Stores (Pty) Ltd	9.5	7.5

Amounts due have no fixed terms of repayment.

Lewis Group Limited:

SHAREHOLDERS' INFORMATION

as at 31 March 2022

Shareholders' spread as at 31 March 2022

	Number of shareholders		Number of shares	
	Total	%	Total	%
1-1 000 shares	2 862	75.55	474 251	0.76
1 001-10 000 shares	597	15.76	1 954 401	3.11
10 001-100 000 shares	226	5.97	7 536 512	12.01
100 001-1 000 000 shares	91	2.40	28 128 131	44.80
1 000 001 shares and over	12	0.32	24 686 418	39.32
Total	3 788	100.00	62 779 713	100.00

Distribution of shareholders as at 31 March 2022

	Number of shareholders		Number of shares	
	Total	%	Total	%
Public:	3 781	99.82	60 890 136	96.99
Unit Trusts/Mutual Funds			25 431 489	40.51
Pension Funds			13 242 934	21.09
Other			22 215 713	35.39
Non-public:	7	0.18	1 889 577	3.01
Lewis Employee Incentive Scheme Trust	1	0.03	108 249	0.17
Directors:				
Lewis Group Limited				
Direct	2	0.05	669 009	1.07
Indirect	3	0.08	312 479	0.50
Lewis Stores Proprietary Limited				
Direct	3	0.08	586 436	0.93
Indirect	3	0.08	213 404	0.34
Total	3 788	100.00	62 779 713	100.00

Lewis Group Limited:

SHAREHOLDERS' INFORMATION CONTINUED

as at 31 March 2022

Major shareholdings as at 31 March 2022

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 2022:

	Number of shares Total	%
Beneficial shareholders:		
Coronation Balanced Plus Fund (SA)	3 514 518	5.60
Corolife Special Opportunities Portfolio (SA)	3 088 275	4.92
By fund manager:		
Coronation Fund Managers (SA)	18 466 215	29.41
Mianzo Asset Management (SA)	4 220 267	6.72
LSV Asset Management (USA)	3 192 274	5.08
Ninety One (SA)	3 136 386	5.00
Dimensional Fund Advisors (USA)	3 048 431	4.86

Geographical analysis of shareholders:

	%
Beneficial shareholders:	
South Africa	71.7
United States of America and Canada	11.7
United Kingdom	0.6
Europe	1.7
Rest of World	14.3
	100.0
By fund manager:	
South Africa	77.1
United States of America and Canada	13.6
United Kingdom	0.4
Europe	6.0
Rest of World	2.9
	100.0

Appendix A

AUDIT COMMITTEE PROFILES

DAPHNE MOTSEPE (65)

BCompt, MBA

Independent non-executive director

Chairperson of the Audit and Risk committees, member of the Remuneration, Nominations, and Social, Ethics and Transformation committees.

Appointed as director on 1 June 2017

Directorships

Kapela Holdings (Pty) Limited, NEC XON Holdings (Pty) Limited, Toyota Tsusho Africa, CFAO Motors South Africa (Pty) Ltd

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 the Audit, Risk as well as Nominations/Directors' Affairs committees.

FATIMA ABRAHAMS (59)

BEcon (Hons), MCom, DCom

Independent non-executive director and Lead Independent Director (LID)

Chairperson of the Remuneration and Social, Ethics and Transformation committees; Member of the Audit, Risk, Remuneration and Nomination committees. Appointed as LID in 2021.

Appointed as director on 1 September 2005

Directorships

The Foschini Group Limited and the Clicks Group Limited.

Expertise and experience

Human resources and remuneration. Prof. Abrahams is an academic, experienced company director and a registered industrial psychologist. She is an emeritus professor at the University of the Western Cape, having also served as dean of the faculty of Economic and management sciences.

Specific contribution to the Board

Fatima serves as a non-executive director on the Board of a number of listed companies, with particular involvement in retail businesses. She chairs the Social, Ethics and Transformation committee, as well as the Remuneration committee. Her strong academic qualifications and experience have provided her with extensive expertise in these areas. She has performed similar roles for other listed and unlisted entities over a number of years, which is of benefit to the group.

TAPIWA NJIKIZANA (46)

CA(SA) JSE Registered IFRS Advisor

Independent non-executive director

(Zimbabwean)

Member of the Audit, Risk, Remuneration and Nominations committees.

Appointed as director on 19 August 2019

Directorships

W.consulting SA (Pty) Ltd

Experience and expertise

Tapiwa is an executive director at W.consulting SA (Pty) Limited. 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 of 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

The committee held four meetings during the year.

	2021/2022 Audit committee meeting attendance
Number of meetings	4
Non-executive directors	
D Motsepe ⁽⁴⁾	4
Prof. F Abrahams ⁽³⁾	4
A Bodasing ⁽²⁾	4
T Njikizana ⁽¹⁾	4
H Saven ⁽²⁾	4
D Westcott ⁽¹⁾	1*
Executive directors	
J Enslin ⁽²⁾	4
J Bestbier ⁽²⁾	4

⁽¹⁾ Attended as a member throughout the year

⁽²⁾ Attended as an invitee throughout the year

⁽³⁾ Prof. F Abrahams attended as an invitee for two meetings and thereafter attended as a member once appointed to the committee on 17 September 2021.

⁽⁴⁾ D Motsepe attended two meetings as a member and thereafter was appointed chairperson of the committee on 17 September 2021.

* D Westcott passed away on 19 August 2021.

Lewis Group Limited:

CORPORATE INFORMATION

Non-executive directors:	Hilton Saven (Chairman)* Prof. Fatima Abrahams* Adheera Bodasing Daphne Motsepe* Tapiwa Njikizana* <i>* Independent</i>
Executive directors:	Johan Enslin (Chief executive officer) Jacques Bestbier (Chief financial officer)
Company secretary:	Ntokozo Makomba (1 April 2021 to 30 April 2022)
Acting company secretary:	Ryan Lepar (1 May 2022 to 31 May 2022)
Transfer secretaries:	Computershare Investor Services (Pty) Ltd Private Bag X9000, Saxonwold, 2132, South Africa Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196, South Africa
Auditors:	PricewaterhouseCoopers Inc.
Sponsor:	The Standard Bank of South Africa Limited (effective 1 March 2022) UBS South Africa (Pty) Ltd (until 28 February 2022)
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

www.lewisgroup.co.za

