Lewis Group Ltd

FINAL AUDITED RESULTS

for the year ended 31 March 2017

GROSS MARGIN	OPERATING MARGIN	HEADLINE EARNINGS PER SHARE	TOTAL DIVIDEND	GEARING
41.6%	10.1%	400.1 CENTS	200 CENTS PER SHARE	2.9%

TRADING AND FINANCIAL PERFORMANCE

Trading conditions continued to deteriorate during the year as economic growth slowed, the group's customer base was adversely impacted by the affordability assessment regulations, high levels of unemployment and the protracted drought affecting the rural economy.

After increasing by 1% in the first half of the reporting year, merchandise sales slowed in the second half and ended the year 2% lower. Like-for-like merchandise sales declined by 9%. Stores outside South Africa contributed 24.1% of merchandise sales (LY 17.4%).

Group credit sales account for 65.2% (2016: 64.3%) of total sales. Credit sales in Beares account for 56.6% of the brand's sales while 67.2% of Lewis and Best Home and Electric sales are on credit.

Revenue at R5.6 billion was 3.3% down on the previous year owing to a 4.3% decline in other revenue.

The gross profit margin expanded by 360 basis points to 41.6% due to more competitive procurement of locally sourced product, tight stock control and an increased sales contribution from the higher margin furniture category. Furniture accounted for 56.3% of total sales compared to 54.4% in the prior year.

Operating costs, excluding debtor costs, were well contained to an increase of only 5.5%. Expenses were impacted by the integration of the stores acquired outside South Africa, general compliance costs including the compliance call centre at head office and upgrades to the point-of-sale system in stores.

Slower revenue growth and higher operating and debtor costs contributed to the group's operating margin contracting to 10.1% (2016: 14.1%).

Earnings for the prior year included a once-off capital gain of R495.6 million as a result of realising a large portion of the investment portfolio with Monarch Insurance Company Limited, the group's insurer, which impacted earnings per share reported last year.

Headline earnings declined from R552 million to R355 million with headline earnings per share 35.6% lower at 400.1 cents.

The group remains strongly cash-generative. Cash generated from operating and investing activities was used to repay borrowings of R1 billion and to fund dividend payments of R357 million.

At the end of the reporting period the group's cash and cash equivalents totalled R789 million.

The net asset value per share has remained stable at 6 133 cents, highlighting the strength of the group's balance sheet. Consequently, the directors declared a final dividend of 100 cents per share, bringing the total dividend for the year to 200 cents per share (2016: 517 cents).

DEBTOR MANAGEMENT

The collection performance of the debtors' book remains stable and debtor cost growth increased by 6.0% for the year reflecting an improvement from the 17% growth of last year. Debtor costs as a percentage of net debtors increased from 17.1% to 19.1% as a result of the higher bad debt experience and a lower debtor base. The level of satisfactory paid customers at 68.5% compares to last year's 68.8% despite the deteriorating consumer credit environment.

RETAIL STORE FOOTPRINT

At year-end the group traded out of 761 stores across its three retail brands. Overall trading space was reduced by 2.5% as the group continued to open smaller format Lewis stores and close marginal stores. Lewis now has 201 smaller format stores in its portfolio of 513 stores. During the year 17 stores were relocated to better trading sites or smaller premises, and 32 stores were refurbished.

Following the integration of the 56 Ellerines and Beares stores acquired in Botswana, Lesotho, Namibia and Swaziland, the group has 116 stores outside of South Africa, accounting for 15% of the total store Base.

SHARE REPURCHASES

The Board has resolved to implement a share repurchase program pursuant to the authority granted by shareholders at the Annual General Meeting on 21 October 2016.

PROSPECTS

Trading conditions are not expected to improve in the short term and in this environment of muted consumer spending, management will remain focused on tight expense control, improving collections productivity, driving sales growth and sourcing innovative merchandise ranges which appeal to its target market.

The group's solid balance sheet supported by its strong cash position and current low levels of gearing at 2.9% (compared to 25.5% a year ago) provide a good platform for the group's medium-to longer-term growth strategies.

DIVIDEND DECLARATION

Notice is hereby given that a final gross cash dividend of 100 cents per share in respect of the year ended 31 March 2017 has been declared payable to holders of ordinary shares. The number of shares in issue as of the date of declaration is 98 057 959. 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 100 cents and the dividend tax payable is 20 cents for shareholders who are not exempt. The net dividend for shareholders who are not exempt will therefore be 80 cents. The dividend tax rate may be reduced where the shareholder is a tax resident in a foreign jurisdiction which has a Double Tax Convention with South Africa and meets the requirements for a reduced rate. The company's tax reference number is 9551/419/15/4.

The following dates are applicable to this declaration:

Last date of trade "cum" dividend	Tuesday 18 July 2017
Date of trading commences "ex" dividend	Wednesday 19 July 2017
Record date	Friday 21 July 2017
Date of payment	Monday 24 July 2017

Share certificates may not be dematerialised or rematerialised between Wednesday 19 July 2017 and Friday 21 July 2017, both days inclusive.

For and on behalf of the Board

David Nurek
Independent Non-executive chairman

Johan Enslin
Chief executive officer

Les Davies
Chief financial officer

Cape Town
24 May 2017

EXTERNAL AUDITORS' OPINION

These summary consolidated financial statements for the year ended 31 March 2017 have been audited by PricewaterhouseCoopers Inc., who expressed an unmodified opinion thereon. The auditor also expressed an unmodified opinion on the annual financial statements from which these summary consolidated financial statements were derived.

A copy of the auditor's report on the summary consolidated financial statements and of the auditor's report on the annual consolidated financial statements are available for inspection at the company's registered office, together with the financial statements identified in the respective auditor's reports.

INCOME STATEMENT

	Notes	2017 Audited Rm	2016 Audited Rm
Revenue		**5 592.1**	5 785.0
Merchandise sales	6	**2 607.9**	2 667.7
Finance charges and initiation fees earned		**1 451.8**	1 426.3
Insurance revenue		**822.3**	908.2
Ancillary services		**710.1**	782.8
Cost of merchandise sales	6	**(1 522.4)**	(1 652.8)
Operating costs		**(3 504.9)**	(3 317.2)
Debtor costs	2.2	**(1 065.5)**	(1 005.1)
Employment costs		**(987.0)**	(946.3)
Occupancy costs		**(370.8)**	(329.1)
Administration and IT		**(318.4)**	(274.5)
Transport and travel		**(202.8)**	(224.2)
Marketing		**(199.9)**	(192.4)
Depreciation and amortisation		**(90.1)**	(85.6)
Other operating costs		**(270.4)**	(260.0)
Operating profit before investment income		**564.8**	815.0
Investment income	3.2	**104.9**	600.6
Profit before finance costs		**669.7**	1 415.6
Net finance costs		**(148.4)**	(136.1)
Interest paid		**(174.3)**	(158.4)
Interest received		**39.4**	14.0
Forward exchange contracts		**(13.5)**	8.3
Profit before taxation		**521.3**	1 279.5
Taxation	7	**(163.3)**	(318.0)
Net profit attributable to ordinary shareholders		**358.0**	961.5
Earnings per share (cents)		**403.5**	1 082.6
Diluted earnings per share (cents)		**399.1**	1 073.9

STATEMENT OF COMPREHENSIVE INCOME

	2017	2016
Net profit for the year	**358.0**	961.5
Items that may be subsequently reclassified to income statement:		
Movement in other reserves	**(2.4)**	(456.7)
Fair value adjustment to available-for-sale investments	**9.6**	(71.2)
Disposal of available-for-sale investments	**(0.2)**	(406.3)
Foreign currency translation reserve	**(11.8)**	20.8
Items that may not be subsequently reclassified to income statement:		
Retirement benefit remeasurements	**1.2**	(2.3)
Other comprehensive income	**(1.2)**	(459.0)
Total comprehensive income for the year attributable to equity shareholders	**356.8**	502.5

STATEMENT OF CHANGES IN EQUITY

	2017 Audited Rm	2016 Audited Rm
Share capital and premium		
Opening balance	**92.1**	110.8
Cost of own shares acquired (treasury shares)	**–**	(53.0)
Share awards to employees	**16.2**	34.3
	108.3	92.1
Other reserves		
Opening balance	**27.5**	492.4
Other comprehensive income for the year	**(2.4)**	(456.7)
Share-based payment	**(4.0)**	10.3
Transfer of share-based payment reserve to retained earnings on vesting	**(14.9)**	(18.5)
	6.2	27.5
Retained earnings		
Opening balance	**5 329.8**	4 845.4
Net profit attributable to ordinary shareholders	**358.0**	961.5
Distribution to shareholders	**(356.9)**	(459.0)
Share awards to employees	**(16.2)**	(34.3)
Transfer from other reserves	**14.9**	18.5
Retirement benefit remeasurements	**1.2**	(2.3)
	5 330.8	5 329.8
Balance as at 31 March 2017	**5 445.3**	5 449.4

BALANCE SHEET

	Notes	2017 Audited Rm	2016 Audited Rm
Assets			
Non-current assets			
Property, plant and equipment		**343.5**	370.4
Trademarks		**66.2**	61.4
Goodwill		**5.5**	–
Deferred taxation		**48.9**	85.7
Retirement benefit asset		**55.0**	63.0
Financial assets – insurance investments	3.1	**455.9**	432.0
		975.0	1 012.5
Current assets			
Inventories		**454.6**	444.5
Trade and other receivables	2.1	**4 225.8**	4 514.3
Reinsurance assets	3.3	**152.2**	397.3
Insurance premiums in advance		**403.2**	1 185.4
Taxation		**181.1**	28.3
Financial assets – insurance investments	3.1	**294.9**	1 236.5
Cash-on-hand and deposits		**788.6**	587.2
		6 500.4	8 393.5
Total assets		**7 475.4**	9 406.0
Equity and liabilities			
Capital and reserves			
Share capital and premium		**108.3**	92.1
Other reserves		**6.2**	27.5
Retained earnings		**5 330.8**	5 329.8
		5 445.3	5 449.4
Non-current liabilities			
Long-term interest-bearing borrowings	4	**700.0**	1 375.0
Deferred taxation		**91.0**	60.8
Retirement benefit liability		**101.7**	100.2
		892.7	1 536.0
Current liabilities			
Trade and other payables		**271.3**	270.2
Reinsurance and insurance liabilities	3.4	**618.8**	1 550.4
Short-term interest-bearing borrowings	4	**247.3**	600.0
		1 137.4	2 420.6
Total equity and liabilities		**7 475.4**	9 406.0

CASH FLOW STATEMENT

	Notes	2017 Audited Rm	2016 Audited Rm
Cash flow from operating activities			
Cash flow from trading		**540.9**	1 104.7
Operating profit before investment income		**564.8**	815.0
Adjusted for:			
Share-based payments		**(4.0)**	10.3
Depreciation and amortisation		**90.1**	85.6
Movement in debtors impairment provision		**27.0**	239.3
Movement in other provisions		**(144.7)**	(46.2)
Other movements		**7.7**	0.7
Changes in working capital:		**573.9**	(154.3)
Decrease/(increase) in inventories		**11.6**	(6.6)
Decrease/(increase) in trade and other receivables		**322.8**	(242.0)
Increase in trade payables		**143.8**	35.3
Decrease in insurance premiums in advance		**782.2**	300.1
Decrease in reinsurance assets		**245.1**	84.5
Decrease in reinsurance and insurance liabilities		**(931.6)**	(325.6)
Cash generated from operations		**1 114.8**	950.4
Interest received		**144.0**	99.3
Dividends received		**–**	19.7
Interest paid		**(187.8)**	(150.1)
Taxation paid		**(254.8)**	(330.3)
		816.2	589.0
Cash utilised in investing activities			
Net disposals of insurance business investments		**931.1**	79.6
Purchase of insurance investments		**(2 253.8)**	(1 574.8)
Disposals of insurance investments		**3 184.9**	1 654.4
Acquisition of property, plant and equipment		**(61.3)**	(104.3)
Purchase of businesses	9	**(107.6)**	(101.1)
Proceeds on disposal of property, plant and equipment		**7.6**	12.7
		769.8	(113.1)
Cash flow from financing activities			
Dividends paid		**(356.9)**	(459.0)
Proceeds from borrowings		**–**	1 150.0
Repayments of borrowings		**(1 027.7)**	(700.0)
Purchase of own shares		**–**	(53.0)
		(1 384.6)	(62.0)
Net increase in cash and cash equivalents		**201.4**	413.9
Cash and cash equivalents at the beginning of the year		**587.2**	173.3
Cash and cash equivalents at the end of the year		**788.6**	587.2

EARNINGS AND DIVIDENDS PER SHARE

	2017 Audited Rm	2016 Audited Rm
1. Weighted Average No. of Shares		
Weighted average	**88 730**	88 811
Diluted weighted average	**89 699**	89 532
2. Headline Earnings (Rm)		
Attributable earnings	**358.0**	961.5
Profit on disposal of fixed assets	**(1.6)**	(2.7)
Profit on disposal of available-for-sale investments	**(0.2)**	(406.3)
Gain on acquisition of Beares	**(1.2)**	(0.4)
Headline earnings	**355.0**	552.1
3. Earnings per Share (cents)		
Earnings per share	**403.5**	1 082.6
Diluted earnings per share	**399.1**	1 073.9
4. Headline Earnings per Share (cents)		
Headline earnings per share	**400.1**	621.7
Diluted headline earnings per share	**395.8**	616.7
5. Dividends per Share (cents)		
Dividends paid per share		
Final dividend 2016 (2015)	**302.0**	302.0
Interim dividend 2017 (2016)	**100.0**	215.0
	402.0	517.0
Dividends declared per share		
Interim dividend 2017 (2016)	**100.0**	215.0
Final dividend 2017 (2016)	**100.0**	302.0
	200.0	517.0

KEY RATIOS

for the year ended 31 March 2017

	2017	2016
Operating efficiency ratios		
Gross profit margin %	**41.6%**	38.0%
Operating profit margin %	**10.1%**	14.1%
Number of stores	**761**	760
Number of permanent employees (average)	**8 619**	8 409
Trading space (sqm)	**248 271**	254 566
Inventory turn	**3.3**	3.7
Current ratios	**5.7**	4.0
Credit ratios		
Credit sales %	**65.2%**	64.3%
Debtor costs as a % of the net debtors	**19.1%**	17.1%
Debtors' impairment provision as a % of net debtors	**28.0%**	26.1%
Arrear instalments on satisfactory accounts as a percentage of gross debtors	**9.8%**	9.9%
Arrear instalments on slow-paying and non-performing accounts as a percentage of gross debtors	**28.6%**	26.8%
Credit applications decline rate	**38.7%**	39.3%
Shareholder ratios		
Net asset value per share (cents)	**6 133**	6 158
Gearing ratio	**2.9%**	25.5%
Dividend payout ratio	**54.7%**	52.7%
Return on average equity (after-tax)	**6.6%**	17.6%
Return on average capital employed (after-tax)	**6.7%**	14.7%
Return on average assets managed (pre-tax)	**8.3%**	15.8%

Notes:
1. All ratios are based on figures at the end of the year unless otherwise disclosed.
2. The net asset value has been calculated using 88 790 000 shares in issue (2016 – 88 499 000).
3. Total assets exclude the deferred tax asset and the reinsurance asset.

Executive directors: J Enslin (Chief executive officer), LA Davies (Chief financial officer).
Independent non-executive directors: DM Nurek (Chairman), H Saven, BJ van der Ross, Professor F Abrahams, AJ Smart.
Company secretary: MG McConnell. **Transfer secretaries:** Computershare Investor Services (Pty) Ltd; Rosebank Towers, 15 Biermann Ave, Rosebank, Johannesburg, 2196; PO Box 61051, Marshalltown, 2107. **Auditors:** PricewaterhouseCoopers Inc. **Sponsor:** UBS South Africa (Pty) Ltd. **Registered office:** 53A Victoria Road, Woodstock, 7925.
Registration number: 2004/009817/06. **Share code:** LEW **ISIN:** ZAE000058236

Lewis Group Ltd

FINAL AUDITED RESULTS

for the year ended 31 March 2017

1. Basis of Reporting

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

The accounting policies applied in the preparation of the consolidated financial statements from which the summary consolidated financial statements were derived are in terms of International Financial Reporting Standards and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements.

These financial statements are a summary of the group's audited annual financial statements for the year ended 31 March 2017. The audited annual financial statements were prepared by the group's Finance Department under the supervision of the Chief Financial Officer, Mr. L A Davies CA(SA). A copy of the full set of the audited financial statements is available for inspection at the company's registered office.

2. Trade and other receivables

2.1 Trade receivables

	2017 Audited Rm	2016 Audited Rm
Instalment sale and loan receivables	**6 107.1**	6 482.6
Unearned provisions	**(525.9)**	(606.3)
Provision for unearned maintenance income	**(320.0)**	(376.5)
Provision for unearned finance charges and unearned initiation fees	**(205.9)**	(229.8)
Net instalment sale and loan receivables	**5 581.2**	5 876.3
Provision for impairment	**(1 560.6)**	(1 533.6)
	4 020.6	4 342.7
Other receivables	**205.2**	171.6
	4 225.8	4 514.3
Debtors' impairment provision as % of net debtors	**28.0%**	26.1%

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

Credit risk of Trade Receivables

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

Credit granting

The group has developed advanced credit-granting systems to properly assess the customer. 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 differs 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 expense 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 monitors any variances from the level of risk that has been adopted and adjusts the credit-granting process on a regular basis.

The group manages its risk effectively by assessing the customer's ability to service the proposed monthly instalment. However, collateral exists in that ownership of merchandise is retained until the customer settles the account in full.

Impairment Provision

The customer's payment profile is managed using payment ratings. Payment ratings are determined on an individual customer level and aggregated over all the customer's sub-accounts. Payment ratings measure the customer's actual payments received over the lifetime of the account relative to the instalments due in terms of the contract. These payment ratings are used to categorise and report on customers at the store level to follow up the slow paying and non-performing customers. There are 13 payment rating categories a customer can fall into following the monthly assessment.

The payment rating is integral to the calculation of the debtor's impairment provision. Impaired receivables are carried at their net present value of the estimated future cash flows from such accounts, discounted at the original effective interest rate implicit in the credit agreement. Estimated future cash flows are projected utilising the payment ratings.

The management of the debtor book and the determination of the impairment provision utilises the payment rating as a leading indicator. Past customer behaviour as reflected in the payment ratings determine future expected collections for the purpose of the impairment provision. The impairment provision being the result of the payment ratings is a key indicator to the ultimate cash recovery expected for each individual customer.

The impairment calculation is performed on a monthly basis taking into account the payment behaviour of the debtors book, having regard to the payment rating and age of the debtors account.

Various profiles of the impairment provision are prepared monthly. The credit risk systems (the system that monitors the customer's payment behaviour post-credit granting) also produces customer payment data. The aforementioned and the key indicators are monitored by senior management to analyse and assess the state of the debtors book. Daily collection statistics are also collated to identify trends early.

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

- Number of satisfactory paid customers. While the expectation is that the gross receivables would be the key indicator, this is not the case as there is a distortion created by the slow-paying and non-performing customer's balances growing faster than satisfactory 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 the payment rating and the trend thereof over the months. This is correlated with collection statistics and customer payment data produced by the credit risk systems.

Contractual Arrears

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

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

Combined impairment and contractual arrears table

The table reflects the following:

- A summary of the four main groupings of payment ratings describing payment behaviour. The payment ratings categorise individual customers into 13 payment categories. For purposes of this table, the payment ratings have been summarised into four main groupings.
- For each of the four main groupings of payment ratings, the following is disclosed:
  – Number of customers.
  – Gross receivables. Note that unearned provisions have not been allocated to this amount.
  – Impairment provision allocated to each grouping.
  – Contractual arrears for each grouping have been categorised by number of instalments in arrears.

Gross Debtor Analysis

March 2017

							Instalments in arrears				
			Number of Customers Total	Gross Receivables R'000	Impairment Provision R'000	Total Arrears R'000	1 R'000	2 R'000	3 R'000	4 R'000	> 4 R'000
Satisfactory paid	**March 2017**	**No**	**422 070**	**3 507 921**	**27 609**	**596 271**	**162 822**	**114 395**	**86 010**	**65 285**	**167 759**
Customers fully up-to-date including those who have paid 70% or more of amounts due over the contract period. The provision in this category results from *in duplum* provision.		**%**	**68.5%**	**57.4%**	**1.8%**						
	March 2016	No	459 390	3 775 137	38 319	641 286	175 898	121 896	90 493	67 565	185 434
		%	68.8%	58.2%	2.5%						
Slow payers	**March 2017**	**No**	**52 078**	**538 715**	**192 890**	**321 871**	**37 240**	**36 064**	**33 849**	**31 573**	**183 145**
Customers fully up-to-date including those who have paid 65% to 70% of amounts due over the contract period. The provision in this category ranges from 14% to 67% of amounts due and includes an *in duplum* provision.		**%**	**8.4%**	**8.9%**	**12.4%**						
	March 2016	No	54 507	558 758	176 249	313 201	37 684	36 322	33 604	30 913	174 678
		%	8.1%	8.7%	11.5%						
Non-performing accounts	**March 2017**	**No**	**47 981**	**576 347**	**258 823**	**366 979**	**34 413**	**32 902**	**31 201**	**29 727**	**238 736**
Customers who have paid between 55% and 65% of amounts due over the contract period. The provision in this category ranges from 25% to 79% of amounts due.		**%**	**7.8%**	**9.4%**	**16.6%**						
	March 2016	No	50 690	589 858	241 999	353 286	35 071	33 189	31 195	29 501	224 330
		%	7.6%	9.1%	15.8%						
Non-performing accounts	**March 2017**	**No**	**94 118**	**1 484 119**	**1 081 237**	**1 057 905**	**67 299**	**66 090**	**64 564**	**63 075**	**796 877**
Customers who have paid 55% or less of amounts due over the contract period. The provision in this category ranges from 35% to 100% of amounts due.		**%**	**15.3%**	**24.3%**	**69.2%**						
	March 2016	No	103 495	1 558 864	1 077 046	1 068 377	70 458	68 649	66 504	64 447	798 319
		%	15.5%	24.0%	70.2%						
Total	**March 2017**		**616 247**	**6 107 102**	**1 560 559**	**2 343 026**	**301 774**	**249 451**	**215 624**	**189 660**	**1 386 517**
	March 2016		668 082	6 482 617	1 533 613	2 376 150	319 111	260 056	221 796	192 425	1 382 761
Unearned provisions	**March 2017**			(525 900)							
	March 2016			(606 354)							
Net instalment sale and loan receivables	**March 2017**			5 581 202	28.0%						
	March 2016			5 876 263	26.1%						

An *in duplum* provision of R 29.1 million (2016: R 39.8 million) has been provided.

2.1 Trade receivables (continued)

Interest rate risk

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

The average effective interest rate on instalment sale and loan receivables is 22.5% (2016: 22.2%) and the average term of the sale is 32.6 months (2016: 32.8 months).

Fair Value

In terms of paragraph 29(a) of IFRS 7, disclosure of fair value is not required as trade receivables form part of a normal operating cycle and the carrying value of trade receivables is a reasonable approximation of fair value.

2.2 Debtor costs

	2017 Audited Rm	2016 Audited Rm
Bad debts, repossession losses and bad debt recoveries	**1 038.5**	765.8
Movement in debtors' impairment provision	**27.0**	239.3
Closing balance	**1 560.6**	1 533.6
Opening balance	**(1 533.6)**	(1 294.3)
	1 065.5	1 005.1
Debtor costs as a % of net instalment sale and loan receivables	**19.1%**	17.1%

3. Insurance

3.1 Insurance investments

	2017 Audited Rm	2016 Audited Rm
Financial assets – insurance investments		
Listed investments		
Fixed income securities – available-for-sale	**455.9**	432.0
Unlisted investments		
Money market – available-for-sale	**294.9**	1 236.5
	750.8	1 668.5
Analysed as follows:		
Non-current	**455.9**	432.0
Current	**294.9**	1 236.5
	750.8	1 668.5
Movement for the year		
Beginning of the year	**1 668.5**	1 842.6
Additions to investments	**2 253.8**	1 574.8
Disposals of investments	**(3 184.6)**	(1 654.4)
Fair value adjustment	**13.1**	(94.5)
End of the year	**750.8**	1 668.5

3.1 Insurance investments (continued)

Fair value hierarchy

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

	Level 1 Rm	Level 2 Rm	Total Rm
2017			
Available-for-sale assets:			
Insurance investments:			
Fixed income securities		**455.9**	**455.9**
Money market		**294.9**	**294.9**
		750.8	**750.8**
2016			
Available-for-sale assets:			
Insurance investments:			
Fixed income securities	432.0		432.0
Money market		1 236.5	1 236.5
	432.0	1 236.5	1 668.5

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

All government and corporate bonds were transferred from Level 1 to Level 2 based on management's current assessment of all active markets for debt instruments. There were no other significant transfers between Level 1 and Level 2.

3.2 Investment income

	2017 Audited Rm	2016 Audited Rm
Interest – insurance business	**104.6**	85.3
Dividends from listed investments – insurance business	**–**	19.7
Realised gain on disposal of insurance investments	**0.3**	495.6
	104.9	600.6

The move from term to monthly insurance policies will significantly reduce the capital required by the group's insurance subsidiary. Consequently, to limit the risk, the insurance subsidiary sold in the prior year the equity and a large portion of the bond portfolio realising a capital gain of R495.6 million which was included in investment income, in the 2016 financial year.

3.3 Reinsurance assets

	2017	2016
Reinsurer's share of unearned premiums	**123.8**	364.0
Opening balance	**364.0**	456.1
Recognised in income statement	**(240.2)**	(92.1)
Reinsurer's share of insurance premiums	**28.4**	33.3
Opening balance	**33.3**	25.7
Recognised in income statement	**(4.9)**	7.6
Total reinsurance assets	**152.2**	397.3

3.4 Reinsurance and insurance liabilities

	2017	2016
Unearned premiums	**412.1**	1 090.8
Opening balance	**1 090.8**	1 345.6
Income statement movement	**(678.7)**	(254.8)
Due to reinsurers	**0.3**	98.4
Other reinsurance and insurance liabilities	**206.4**	361.2
Opening balance	**361.2**	396.0
Income statement movement	**(154.8)**	(34.8)
Total reinsurance and insurance liabilities	**618.8**	1 550.4

4. Borrowings, banking facilities and cash

	2017	2016
Interest-bearing borrowings		
Long-term		
Banking facilities	**700.0**	1 375.0
Short-term		
Banking facilities	**225.0**	300.0
Domestic Medium Term Note Program	**–**	300.0
	925.0	1 975.0
Cash and cash equivalents		
Bank overdrafts	**22.3**	–
Cash on hand	**(788.6)**	(587.2)
	(766.3)	(587.2)
Net borrowings	**158.7**	1 387.8
Unutilised facilities		
Banking facilities	**2 116.3**	1 337.2
Domestic Medium Term Note Program	**2 000.0**	1 700.0
	4 116.3	3 037.2
Available facilities	**4 275.0**	4 425.0
Interest rate profile		
Interest rate profile of borrowings is as follows:		
– Bank borrowings at interest rates linked to 3-month JIBAR. The weighted average interest rate at the end of the reporting period is 9.6 % (2016: 9.4%)	**925.0**	1 675.0
– Three-year floating note issued under the group's Domestic Medium Term Note program at 158 basis points above the 3-month JIBAR.	**–**	300.0
	925.0	1 975.0
Capital management		
Net borrowings	**158.7**	1 387.8
Shareholder's Equity	**5 445.3**	5 449.4
Gearing ratio	**2.9%**	25.5%

5. Reportable segments

Primary	Lewis Rm	Best Home and Electric Rm	**Beares Rm**	Group Rm
2017				
Revenue	**4 137.0**	**725.4**	**729.7**	5 592.1
Operating profit before investment income	**424.2**	**111.0**	**29.6**	564.8
Operating margin	**10.3%**	**15.3%**	**4.1%**	10.1%
Segment assets	**3 357.2**	**578.7**	**539.3**	4 475.2
2016				
Revenue	4 564.7	793.3	427.0	5 785.0
Operating profit before investment income	700.4	143.0	(28.4)	815.0
Operating margin	15.3%	18.0%	(6.7%)	14.1%
Segment assets	3 759.8	624.1	403.3	4 787.2

Geographical	South Africa Rm	Namibia Rm	BLS (*) Rm	Group Rm
2017				
Revenue	**4 559.0**	**526.3**	**506.8**	5 592.1
2016				
Revenue	4 986.4	382.3	416.3	5 785.0

(*) Botswana, Lesotho and Swaziland

6. Gross profit

	2017 Audited Rm	2016 Audited Rm
Merchandise sales	**2 607.9**	2 667.7
Cost of merchandise sales	**(1 522.4)**	(1 652.8)
Merchandise gross profit	**1 085.5**	1 014.9
Gross profit percentage	**41.6%**	38.0%

7. Taxation

	2017 Audited Rm	2016 Audited Rm
Taxation charge		
Normal taxation		
Current year	**100.3**	338.9
Prior year	**0.8**	(2.1)
Deferred taxation		
Current year	**61.3**	(18.7)
Prior year	**0.9**	–
Rate change	**–**	(0.1)
Taxation per income statement	**163.3**	318.0
Tax rate reconciliation		
Profit before taxation	**521.3**	1 279.5
Taxation calculated at a tax rate of 28% (2016: 28%)	**146.0**	358.3
Differing tax rates in foreign countries	**6.3**	5.4
Disallowances	**14.5**	11.2
Exemptions	**(5.2)**	(54.7)
Prior years	**1.7**	(2.2)
Taxation per income statement	**163.3**	318.0
Effective tax rate	**31.3%**	24.9%

8. Regulatory matters

Referrals by National Credit Regulator to National Consumer Tribunal

First referral

In July 2015, the National Credit Regulator ("NCR") referred both Lewis Stores ("Lewis") and Monarch to the National Consumer Tribunal ("NCT") for alleged breaches of the National Credit Act ("NCA") in relation to the sale of loss of employment insurance and disability cover to customers who were pensioners or self-employed persons. Following the notification of the referral, an internal investigation identified approximately 15% of cases where loss of employment insurance policies were invalidly sold to pensioners and self-employed customers as a result of human error at store level. Lewis is currently refunding the premiums and interest totalling approximately R67.7 million to the affected customers. To date, Lewis has reimbursed approximately 93% of amounts due.

In September 2016, the NCT delivered its judgment in the abovementioned matter. The main findings of the NCT were:

1. dismissed the NCR's application against Monarch;
2. found that the offering of loss of employment insurance by Lewis to pensioners or self-employed consumers was unreasonable and therefore constituted prohibited conduct under the NCA;
3. found that the offering of disability insurance by Lewis to pensioners would be unreasonable, unless further enquiry and clarification was obtained and recorded, which makes it clear that such consumers requested such insurance cover;
4. found that the offering of disability insurance by Lewis to self-employed persons was not unreasonable;
5. found that there is no clear basis on which the unreasonableness of the disability and loss of employment insurance has the effect of deceiving consumers;
6. ordered that an independent audit be done of all credit agreements entered into by Lewis since 2007, for purposes of determining whether any pensioners or self-employed consumers were sold loss of employment insurance and whether any pensioners were sold disability insurance. If so, Lewis is to reimburse such consumers with any premiums and any interest charged on their accounts as a result of such insurance premiums. Consumers who no longer have open accounts with Lewis are to be traced and reimbursed. On completion of the independent audit, the NCT will set the matter down for hearing on the quantum of the administrative penalty to be imposed.

Lewis appealed the judgment in October 2016. As a consequence of the appeal, the refund of disability insurance premiums and interest and the independent audit has been suspended pending the outcome of the appeal. The appeal is set down for determination on 2 May 2018. However, as indicated above, Lewis will be continuing to refund loss of employment insurance premiums and interest to customers.

Second referral

In April 2016, the NCR referred Lewis Stores to the NCT for alleged breaches of the NCA relating to club fees and extended maintenance contracts charged to its customers. Lewis has opposed the second referral and filed a comprehensive answering affidavit disputing the NCR's allegations. The second referral was heard by a tribunal of the NCT on 6 April 2017. Judgement was reserved and has not yet been handed down.

High Court summonses

In February 2016 Lewis was served with a summons issued in the name of 15 plaintiffs and in April 2016 a second summons was served by 13 plaintiffs, all plaintiffs being existing or previous customers of Lewis. The summonses were issued at the direction of Summit Financial Partners. The total quantum of both claims is R85 082 plus interest. The plaintiffs' claims are for damages as a consequence of alleged breaches of the NCA in relation to delivery charges and extended maintenance contracts. Lewis disputes liability on the merits and various other grounds and is contesting the action. The plaintiffs in both matters have applied to the Western Cape High Court for leave to amend their summonses. Lewis is opposing the application which has been set down to be heard on 13 June 2017.

Section 165 of Companies Act

First demand

In May 2016, Mr. David Woollam addressed a letter to the Lewis board of directors demanding that Lewis commences with proceedings to declare Johan Enslin, Les Davies, David Nurek and Hilton Saven, delinquent directors in accordance with the provisions of section 165 of the Companies Act. The directors of the Board of Lewis, who had not been made the subject of the demand, considered the demand, and consulted the group's attorneys. Having done so, the directors were satisfied that the demand of Mr. Woollam was frivolous, vexatious and of no merit and they resolved that Lewis launch proceedings in terms of section 165(3) of the Companies Act to set the demand aside.

In October 2016, the Court handed down judgement in Lewis' favour and set aside, in terms of section 165(3) of the Companies Act, Mr. Woollam's demand and awarded Lewis costs against Mr. Woollam. In November 2016, Mr. Woollam filed an application for leave to appeal the judgement. Mr. Woollam's application for leave to appeal was refused by the Western Cape High Court. Mr. Woollam applied for special leave to appeal to the Supreme Court of Appeal and leave to appeal was granted by the Supreme Court of Appeal on 23 March 2017.

Second demand

In August 2016, Mr. Woollam addressed a further letter ("the second demand") to the Lewis board of directors demanding that Lewis commences with proceedings to declare the abovementioned directors, delinquent directors in accordance with the provisions of section 165 of the Companies Act. The directors of the board of Lewis, who had not been made the subject of the second demand, considered such demand, and consulted the group's attorneys. Having done so, the directors were satisfied that the demand of Mr. Woollam was once again frivolous, vexatious and of no merit and they resolved that Lewis launch proceedings in terms of section 165(3) of the Companies Act to set the demand aside. These proceedings were launched in September 2016. Given that Mr. Woollam had no evidence to substantiate his allegations contained in the demand, he sought to withdraw the demand prior to the hearing of the application and filed a rule 6(5) notice. The essence of the rule 6(5) notice was that Mr. Woollam contended that there was no demand capable of being set aside by the Court pursuant to the application, and that the application was accordingly moot. On 27 February 2017, the Court was required to decide whether Mr. Woollam's demand was capable of being withdrawn. On 1 March 2017, the Court delivered its judgement and made the following order:

1. The withdrawal by Woollam of the demand was noted.
2. Woollam is liable for Lewis's costs of suit in the application up to 30 January 2017, such costs to include the fees of two counsel where such were engaged, but excluding the costs attendant on the drafting of an affidavit filed by Lewis on 30 January 2017.
3. Lewis is liable for half of Woollam's costs of suit incurred from 30 January 2017 up to and including the hearing of 27 February 2017, such costs to include the fees of two counsel where such were engaged.

Shareholders will note that Mr. Woolllam has been ordered to bear the bulk of the costs relating to the application.

9. Purchase of businesses

	Rm	Rm
Trademarks	**8.4**	6.0
Goodwill	**5.5**	–
Property, plant and equipment	**3.7**	3.1
Inventory	**23.2**	26.5
Trade receivables	**73.1**	77.5
Accounts payable	**(3.5)**	(6.2)
Deferred tax	**(1.6)**	(5.4)
Gain on acquisition of Beares	**(1.2)**	(0.4)
Total consideration	**107.6**	101.1

During the current period, the group's subsidiaries in Namibia and Swaziland have acquired on 8 May 2016 and 8 April 2016 respectively the businesses trading under the Ellerines and Beares brands from the relevant in-country subsidiaries of Ellerines Services Proprietary Limited (subsidiary of Ellerines Furnishers Proprietary Limited in business rescue). The businesses, which are individually and collectively immaterial, consisted of 26 stores, the Ellerines and Beares brands, trade receivables, inventory and fixed assets. The purchase consideration was paid by cash and assumption of liabilities. The stores will trade either under the Lewis or Beares brands.

In the prior year, the group's subsidiaries in Lesotho and Botswana have acquired on 8 December 2015 and 8 March 2016 respectively the businesses trading under the Ellerines and Beares brands from the relevant in-country subsidiaries of Ellerines Services Proprietary Limited (subsidiary of Ellerines Furnishers Proprietary Limited in business rescue). The purchase consideration was paid by cash and assumption of liabilities.