AUDITED SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2020

2020

2020

Merchandise sales increased by
4.7%
to R3.7 billion

Revenue increased by
5.2%
to R6.5 billion

Cash generated from operations at
R636m

Gross profit margin at
41.0%

Operating profit down
42.7%
to R254 million

Total dividend at
185 cents
per share

Earnings per share down
38.5%
to 232 cents

Headline earnings per share down
30.8%
to 260 cents

Lewis Group Limited: Summary financial statements

Overview

The Covid-19 pandemic and related national lockdown resulted in severe trading restrictions for the retail sector and continues to have a significantly adverse impact on the economy and the financial position of many South Africans.

Lewis Group delivered a solid trading and operational performance for the year before being impacted by the Covid-19 lockdown and subsequent restrictions. After the start of the lockdown on Friday, 27 March 2020 in South Africa, the group lost crucial trading days over the March month end trading period. This resulted in lost merchandise sales of approximately R80 million and customer account collections of R180 million.

The most significant impacts of the Covid-19 lockdown on the financial results are as follows:

- the increase in the impairment provision of R123.2 million as a result of the lost collections in the March trading period due to the store closures mandated by the Covid-19 lockdown.
- in response to the potential economic disruption caused by Covid-19 and its impact on future customer account payment behaviour, the IFRS 9 forward-looking economic overlay on the debtors impairment has been increased by R189.5 million.
- an IFRS 16 related impairment charge of R26.6 million has been raised owing to the possible future impact of Covid-19 on the right-of-use assets.

The above Covid-19 adjustments resulted in the profit before taxation being reduced by R339.3 million with attributable earnings been reduced by R243.3 million and headline earnings by R223.5 million.

The directors have, however, shown confidence in the group's trading and financial prospects despite the effects of the pandemic and declared a total dividend of 185 cents per share for the year. The dividend is 20.9% lower than the prior year and represents a dividend payout ratio of 79%.

Trading and financial performance

After increasing merchandise sales by 6.9% for the first 11 months, trading in the last month of the financial year was significantly impacted by the start of the lockdown and sales for March were 24.8% lower. Merchandise sales for the 12 months therefore slowed to a growth of 4.7%, with comparable store sales growing by 3.2%.

The group's traditional retail brands Lewis, Best Home and Electric, and Beares increased sales by 3.2%. The stores outside South Africa accounted for 18.0% of total sales. INspire, the omni-channel home shopping business, grew sales by 65.1% to R44.8 million. INspire is now reported as part of the traditional retail segment following the incorporation of the business into the Beares brand to align the group's offering to the urban, middle income market.

UFO grew merchandise sales by 10.8% to R530 million which contributed to the group's cash sales increasing by 7.2% for the 12 months.

Cash sales accounted for 43.1% (2019: 42.1%) of total sales. Credit sales grew by 2.9% and comprised 56.9% (2019: 57.9%) of total sales.

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

Total revenue, comprising merchandise sales and other revenue, increased by 5.2% to R6.5 billion.

The gross profit margin at 41.0% (2019: 41.2%) remains at the upper end of the group's target range of 38% – 42%.

Operating costs, excluding debtor costs, were again well controlled and reflected an increase of only 4.3%, ahead of management's guided range of 6% – 8%.

Debtor costs grew by 37.8% or R277 million as the IFRS 9 impairment provision was increased by R210.9 million. Excluding the R312.7 million increase as a consequence of Covid-19 outlined above, the impairment provision would have declined by R101.8 million. The debtors' provision as a percentage of debtors increased from 42.0% to 44.1%. Debtor costs as a percentage of debtors at gross carrying value has increased from 13.3% to 17.6% (refer to Performance of debtor book below).

Following the adoption of IFRS 16 – Leases and also as a result of the future threat of Covid-19, an impairment charge of R26.6 million has been raised on the right-of-use assets.

These impairments have had an impact of R339.3 million on the group's operating profit which declined by 42.7% to R253.7million. The operating margin reduced from 7.2% to 3.9%.

Net finance costs benefited from a gain of R29.3 million on forward exchange contracts covering merchandise imports.

The performance for the year translated into a decline in headline earnings of 33.7% to R204.5 million while headline earnings per share declined by 30.8%.

Cash generated from operations totalled R636 million (2019: R653 million). The gearing ratio was 12% at year end with lease liabilities of R837.9 million being reflected on the balance sheet following the adoption of IFRS 16.

Shortly before year end the group accessed existing borrowing facilities as a precautionary measure to ensure liquidity during lockdown. However, no additional funding was required as the group remained cash positive during the lockdown period and the borrowings were repaid once the stores reopened.

Commentary continued

Performance of debtor book

Collection rates increased to 77.3% for the first 11 months of the financial year to February 2020 (2019: 75.7%). Owing to the loss of key trading days at the March month end due to lockdown, the collection rate for the year slowed to 74.5% (2019: 76.3%) and the level of satisfactory paid customers declined to 70.5% (2019: 71.4%).

The credit health of the group's customer base pre-lockdown is reflected in the R40.9 million decline in net bad debts for the year. Net bad debts as a percentage of debtors reduced to 13.9% from 15.1% in the prior year.

Expanding store footprint

Following the opening of 19 and closure of 9 stores, the group expanded its store base to 794 at year end. Lewis continues to open smaller format stores which now comprises 46% of the brand's stores. During the year a further 150 stores across the portfolio were refurbished. The store footprint outside South Africa in the neighbouring countries of Namibia, Botswana, Eswatini and Lesotho has increased by 5 stores to 125.

Share repurchase programme

The group repurchased 3.3 million shares during the financial year, at an average market price of R30.72 per share. Since the commencement of the current share repurchase programme the group has bought back 11.9 million shares at an average price of R30.43 per share. At the annual general meeting ("AGM") in October 2019, shareholders granted management the authority to repurchase a further 10% of the issued share capital. At the end of the 2020 financial year, 8.2% of this mandate was still available for share repurchases. The company will seek shareholder approval to repurchase a further 10% of the issued share capital at the forthcoming AGM in October 2020.

Outlook

While Covid-19 continues to have a significant impact on the business, the group's strategy is unchanged and is being consistently applied through the crisis. Management remains flexible in the execution of the strategy and continually adapts and adjusts its shorter-term operating plans in response to specific Covid-19 related challenges and opportunities.

The group's business model has proved resilient during the trading restrictions while the strength of the group's balance sheet and cash position ensured that management did not need to access any external funding during the lockdown period.

Trading has been robust following the reopening of all stores from 1 June 2020 when the country moved to lockdown level 3. Merchandise sales for June increased by 22.3% and July by 16.8%. The current sales momentum is being supported by pent up demand from savings accumulated during lockdown.

Consumer spending is expected to contract further in a post Covid-19 recessionary environment while customers in the group's lower to middle income target market are vulnerable to the rising levels of unemployment in the country due to the impact of Covid-19.

The group will continue to invest for longer-term growth and plans to open 20 new stores across its trading brands in the 2021 financial year.

Commentary continued

Dividend declaration

Notice is hereby given that a final gross cash dividend of 65 cents per share in respect of the year ended 31 March 2020 has been declared payable to holders of ordinary shares. The number of shares in issue as of the date of declaration is 79 212 225. The dividend has been declared out of income reserves and is subject to a dividend tax of 20%. The dividend for determining the dividend tax is 65 cents and the dividend tax payable is 13 cents for shareholders who are not exempt. The net dividend for shareholders who are not exempt will therefore be 52.00000 cents. The dividend tax rate may be reduced where the shareholder is tax resident in a foreign jurisdiction which has a Double Tax Convention with South Africa and meets the requirements for a reduced tax rate. The company's tax reference number is 9551/419/15/4.

The following dates are applicable to this declaration:

Last date to trade *"cum"* dividend	15 September 2020
Date trading commences *"ex"* dividend	16 September 2020
Record date	18 September 2020
Date of payment	21 September 2020

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

For and on behalf of the board

Hilton Saven
Independent non-executive chairman

Johan Enslin
Chief Executive Officer

Jacques Bestbier
Chief Financial Officer

Cape Town
25 August 2020

Independent auditor's report
on the summary consolidated financial statements

To the shareholders of Lewis Group Limited

Opinion

The summary consolidated financial statements of Lewis Group Limited, set out on pages 6 to 33 of the provisional report titled "Audited Summary Consolidated Financial Statements for the year ended 31 March 2020", which comprise the summary consolidated balance sheet as at 31 March 2020, the summary consolidated income statement, the summary consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of Lewis Group Limited for the year ended 31 March 2020.

In our opinion, the accompanying summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements, in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports, as set out in note 1 to the summary consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

Summary consolidated financial statements

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the summary consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements and the auditor's report thereon.

The audited consolidated financial statements and our report thereon

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 25 August 2020. That report also includes communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period.

Director's responsibility for the summary consolidated financial statements

The directors are responsible for the preparation of the summary consolidated financial statements in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports, set out in note 1 to the summary consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

Auditor's responsibility

Our responsibility is to express an opinion on whether the summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), *Engagements to Report on Summary Financial Statements*.

PricewaterhouseCoopers Inc

PricewaterhouseCoopers Inc.
Director: MC Hamman
Registered Auditor
Cape Town
25 August 2020

Lewis Group Limited: Summary financial statements

Income statement

for the year ended 31 March 2020

	Notes	2020 Audited Rm	2019 Audited Rm
Revenue	4.1	**6 453.3**	6 137.2
Retail revenue	4.2	**4 475.3**	4 242.3
Merchandise sales		**3 685.5**	3 519.9
Ancillary services		**789.8**	722.4
Insurance revenue		**666.1**	647.2
Effective interest income		**1 311.9**	1 247.7
Cost of merchandise sales	7	**(2 173.5)**	(2 069.3)
Operating costs		**(4 026.1)**	(3 624.9)
Debtor costs	2.2	**(1 010.1)**	(733.1)
Employment costs		**(1 214.4)**	(1 149.5)
Occupancy costs		**(144.2)**	(444.8)
Administration and IT		**(359.7)**	(348.3)
Transport and travel		**(273.2)**	(241.7)
Marketing		**(298.7)**	(298.3)
Depreciation, amortisation and impairment	10	**(375.5)**	(78.6)
Other operating costs		**(350.3)**	(330.6)
Operating profit before investment income		**253.7**	443.0
Investment income	3.2	**53.6**	50.3
Profit before net finance costs		**307.3**	493.3
Net finance costs		**(34.5)**	(29.5)
Interest paid	5.3	**(98.0)**	(69.8)
Interest received	5.3	**34.2**	23.0
Forward exchange contracts	5.3	**29.3**	17.3
Profit before taxation		**272.8**	463.8
Taxation	9	**(90.4)**	(154.3)
Net profit attributable to ordinary shareholders		**182.4**	309.5
Earnings per share (cents)		**232.1**	377.5
Diluted earnings per share (cents)		**225.4**	368.7

Lewis Group Limited: Summary financial statements

Statement of comprehensive income

for the year ended 31 March 2020

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

Lewis Group Limited: Summary financial statements

Earnings and dividends per share

for the year ended 31 March 2020

		2020 Audited	2019 Audited
Weighted average number of shares			
Weighted average	('000)	**78 615**	81 990
Diluted weighted average	('000)	**80 936**	83 950
Headline earnings			
Attributable earnings	(Rm)	**182.4**	309.5
Loss/(profit) on disposal of fixed assets	(Rm)	**2.3**	(1.1)
Impairment of right-of-use assets	(Rm)	**19.8**	–
Headline earnings	(Rm)	**204.5**	308.4
Earnings per share			
Earnings per share	(cents)	**232.1**	377.5
Diluted earnings per share	(cents)	**225.4**	368.7
Headline earnings per share			
Headline earnings per share	(cents)	**260.2**	376.2
Diluted headline earnings per share	(cents)	**252.7**	367.4
Dividends per share			
Dividends paid per share			
Final dividend 2019 (2018)	(cents)	**129.0**	100.0
Interim dividend 2020 (2019)	(cents)	**120.0**	105.0
	(cents)	**249.0**	205.0
Dividends declared per share			
Interim dividend 2020 (2019)	(cents)	**120.0**	105.0
Final dividend 2020 (2019)	(cents)	**65.0**	129.0
	(cents)	**185.0**	234.0

Lewis Group Limited: Summary financial statements

Balance sheet

as at 31 March 2020

	Notes	2020 Audited Rm	2019 Audited Rm
Assets			
Non-current assets			
Property, plant and equipment		**324.4**	298.9
Right-of-use assets	11.2	**693.7**	–
Intangible assets		**120.6**	122.3
Goodwill		**187.6**	187.6
Deferred taxation		**166.1**	195.4
Retirement benefit asset		**106.8**	79.0
Financial assets – insurance investments	3.1	**228.0**	276.1
		1 827.2	1 159.3
Current assets			
Inventories		**740.7**	665.8
Trade and other receivables	2.1	**3 326.1**	3 315.6
Taxation		**54.9**	102.9
Financial assets – insurance investments	3.1	**245.9**	340.7
Cash-on-hand and deposits	5.1	**1 193.4**	204.7
		5 561.0	4 629.7
Total assets		**7 388.2**	5 789.0
Equity and liabilities			
Capital and reserves			
Share capital and premium		**0.9**	0.9
Treasury shares		**(1.0)**	(0.5)
Other reserves		**52.3**	48.4
Retained earnings		**4 657.3**	4 827.3
		4 709.5	4 876.1
Non-current liabilities			
Lease liabilities	11.1	**611.1**	–
Deferred taxation		**23.3**	43.2
Retirement benefit liability		**70.7**	87.2
		705.1	130.4
Current liabilities			
Trade and other payables		**547.9**	521.8
Payments in advance		**150.1**	158.0
Insurance liabilities		**104.8**	102.7
Short-term interest-bearing borrowings	5.1	**922.1**	–
Lease liabilities	11.1	**226.8**	–
Taxation		**21.9**	–
		1 973.6	782.5
Total equity and liabilities		**7 388.2**	5 789.0

Lewis Group Limited: Summary financial statements

Statement of changes in equity

for the year ended 31 March 2020

	Note	2020 Audited Rm	2019 Audited Rm
Share capital and premium			
Opening balance		**0.9**	425.0
Cost of own shares acquired		**(101.7)**	(99.0)
Treasury shares cancelled		**–**	(477.7)
Transfer of cost of cancelled shares		**101.7**	152.6
		0.9	0.9
Treasury shares			
Opening balance		**(0.5)**	(480.2)
Share awards to employees		**20.5**	8.1
Cost of own shares acquired		**(21.0)**	(6.1)
Treasury shares cancelled		**–**	477.7
		(1.0)	(0.5)
Other reserves			
Opening balance		**48.4**	42.6
Other comprehensive income for the year:			
Changes in fair value of FVOCI debt investments		**(35.7)**	(15.3)
Disposal of FVOCI debt investments		**1.0**	0.2
Foreign currency translation reserve		**31.3**	5.0
Equity-settled share-based payments		**29.0**	36.2
Transfer of share-based payments reserve to retained earnings on vesting		**(20.9)**	(20.3)
Transfer of other reserve to retained earnings		**(0.8)**	–
		52.3	48.4
Retained earnings			
Opening balance as previously reported		**4 827.3**	5 461.1
IFRS 9 Transitional adjustments		**–**	(604.8)
IFRS 15 Transitional adjustments		**–**	(26.0)
IFRS 16 Transitional adjustments	1.2	**(92.8)**	–
Opening balance (Restated)		**4 734.5**	4 830.3
Net profit attributable to ordinary shareholders		**182.4**	309.5
Distribution to shareholders		**(196.4)**	(168.0)
Transfer of cost of cancelled shares		**(101.7)**	(152.6)
Transfer of share-based payments reserve to retained earnings on vesting		**20.9**	20.3
Retirement benefit remeasurements		**37.3**	(4.1)
Share awards to employees		**(20.5)**	(8.1)
Transfer of other reserve to retained earnings		**0.8**	–
		4 657.3	4 827.3
Balance as at 31 March		**4 709.5**	4 876.1

Lewis Group Limited: Summary financial statements

Cash flow statement

for the year ended 31 March 2020

	Notes	2020 Audited Rm	2019 Audited Rm
Cash flow from operating activities			
Cash flow from trading	8.1	**892.1**	501.8
Changes in working capital	8.2	**(255.8)**	150.7
Cash flow from operations		**636.3**	652.5
Interest received other than from trade receivables		**86.5**	73.0
Interest paid	5.3	**(98.0)**	(69.8)
Taxation refunded/(paid)		**25.2**	(128.1)
		650.0	527.6
Cash utilised in investing activities			
Net disposals/(purchases) of insurance business investments		**96.0**	(31.1)
Purchases of insurance investments		**(76.0)**	(293.3)
Disposals of insurance investments		**172.0**	262.2
Acquisition of fixed assets		**(108.1)**	(88.6)
Purchase of business		**–**	(16.5)
Proceeds on disposal of fixed assets		**4.0**	9.6
		(8.1)	(126.6)
Cash flow from financing activities			
Dividends paid		**(196.4)**	(168.0)
Payment of principal portion of lease liabilities	11.1	**(256.2)**	–
Advances/(repayments) of borrowings	5.1	**922.1**	(502.8)
Purchase of own shares		**(122.7)**	(105.1)
		346.8	(775.9)
Net increase/(decrease) in cash and cash equivalents		**988.7**	(374.9)
Cash and cash equivalents at the beginning of the year		**204.7**	579.6
Cash and cash equivalents at the end of the year		**1 193.4**	204.7

Lewis Group Limited: Summary financial statements

Notes to the summary financial statements

for the year ended 31 March 2020

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, 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 IFRS and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements except as disclosed in note 1.2.

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

These financial statements are a summary of the group's audited annual financial statements for the year ended 31 March 2020. The audited annual financial statements were prepared by the group's Finance Department under the supervision of Mr. J Bestbier CA(SA). A copy of the full set of the audited financial statements is available for inspection at the company's registered office.

1.2 Changes in accounting policies

1.2.1 Accounting for IFRS 16 – Leases

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

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

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

1.2 Changes in accounting policies continued

1.2.1 Accounting for IFRS 16 – Leases continued

On initial recognition, the lease liability is measured at a value equal to the present value of future lease payments over the lease term, discounted at the interest rate implicit in the lease. If that rate cannot be readily determined the relevant incremental borrowing rate is used. Future lease payments comprise fixed lease payments, less any lease incentives receivable. Subsequent to initial recognition, the lease liability is measured at amortised cost using the effective interest rate method, reduced by future lease payments net of interest charged. Future lease payments include lease extension options where the option to exercise is reasonably certain.

The discount rate used to calculate the lease liability is the group's relevant incremental borrowing rate as the interest rate implicit in the lease is not readily determinable. The rate is specific to the term, country and currency of the lease. Incremental borrowing rates are based on a series of inputs including market rates and risk adjustments which reflects the individual company and country risk profiles.

The ROU asset is initially measured at cost, comprising the initial lease liability, prepaid lease payments, initial direct costs and costs to dismantle or restore, less any lease incentives received. Subsequent to initial recognition, the ROU asset is depreciated on a straight-line basis over the shorter of the lease term and its estimated useful life. ROU assets are tested for impairment where there are indicators that the ROU asset or the Cash-Generating Unit ("CGU") to which the ROU asset belongs may be impaired.

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

Notes to the summary financial statements continued

for the year ended 31 March 2020

1.2 Changes in accounting policies continued

1.2.2 Adoption of IFRS 16 – Leases

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

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

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

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

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

Notes to the summary financial statements continued

for the year ended 31 March 2020

1.2 Changes in accounting policies continued

1.2.2 Adoption of IFRS 16 – Leases continued

Adoption effect on the financial statements

Impact on the income statement

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

[1] Comprises debtor costs, employment costs, administration and IT, transport and travel, marketing and other operating costs. Refer page 6 for full income statement for the year ended 31 March 2020.

Notes to the summary financial statements continued

for the year ended 31 March 2020

1.2 Changes in accounting policies continued

1.2.2 Adoption of IFRS 16 – Leases continued

Impact on the balance sheet

	2020 Rm	On transition 1 April 2019 Rm
Total assets		
Increase in right-of-use assets	**693.7**	726.2
Increase in deferred tax assets	**48.8**	36.6
Increase/(decrease) in lease premiums[1]	**7.0**	(6.5)
Decrease in rental prepayments[1]	**(0.9)**	(23.2)
	748.6	733.1
Total equity and liabilities		
Decrease in opening retained earnings	**(92.8)**	(92.8)
Decrease in retained earnings	**(33.6)**	–
Increase in lease liabilities	**837.9**	856.1
Non-current	**611.1**	642.2
Current	**226.8**	213.9
Decrease in lease averaging provision[2]	**–**	(30.2)
Increase in restoration provision[2]	**37.1**	–
	748.6	733.1

[1] Included in the trade and other receivables.

[2] Included in the trade and other payables.

	2020 Rm	On transition 1 April 2019 Rm
Impact on net asset value		
Decrease in opening retained earnings	**(92.8)**	(92.8)
Decrease in net profit attributable to ordinary shareholders	**(33.6)**	–
	(126.4)	(92.8)
Impact on net asset value per share		
Decrease in net asset value per share (cents)	**(164.4)**	(115.7)
Impact on the cash flow statement		
Increase in cash flow from trading	**327.7**	
Increase in cash flow from operations	**327.7**	
Increase in interest paid – lease liabilities	**(71.5)**	
Effect on cash flows from operating activities	**256.2**	
Increase in principal portion of lease liabilities	**(256.2)**	
Effect on cash flows from financing activities	**(256.2)**	
Net effect on cash and cash equivalents	**–**	

Notes to the summary financial statements continued

for the year ended 31 March 2020

1.2 **Changes in accounting policies** continued

1.2.2 Adoption of IFRS 16 – Leases continued

Impact on the reportable segments

IFRS 16 adjustments by reportable segments are as follows:

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

Notes to the summary financial statements continued

for the year ended 31 March 2020

1.2 Changes in accounting policies continued

1.2.2 Adoption of IFRS 16 – Leases continued

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

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

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

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

Notes to the summary financial statements continued

for the year ended 31 March 2020

2. Trade and other receivables

2.1 Trade receivables

		2020 Audited Rm	2019 Audited Rm
Trade receivables		**5 746.5**	5 527.8
Provision for impairment		**(2 534.0)**	(2 323.1)
Trade receivables (net)		**3 212.5**	3 204.7
Due within 12 months		**2 040.3**	2 012.9
Due after 12 months		**1 172.2**	1 191.8
Other receivables		**113.6**	110.9
Total trade and other receivables		**3 326.1**	3 315.6
Debtors' impairment provision as percentage of debtors at gross carrying value	(%)	**44.1**	42.0

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

Other receivables consist of prepayments, VAT, foreign reinsurance receivables, forward exchange contracts and investment in insurance cell captive.

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; and
- Payment performance for each payment state.

The transition matrix and conditional probabilities are calculated using the trade receivables population payment behaviour for each payment state and has been developed using the group's customer payment history over the last five years. The transition matrix predicts the population's payment behaviour and probability of the account being in a particular payment state and transitioning into future payment states. The key states in the transitional matrix are the following:

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

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

Notes to the summary financial statements continued

for the year ended 31 March 2020

2. **Trade and other receivables** continued

2.1 **Trade receivables** continued

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

Economic overlay

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

Standard Economic Overlay Model

An economic overlay has been developed by performing a regression analysis between key economic variables with reference to the non-performing category over a five-year period (customers who have paid less than 55% of amounts due over the contract period). This assessment of the key economic assumptions is done on an annual basis to identify the economic variables that have the highest degree of correlation with the non-performing category. This assessment for 2020 has resulted in a change in variables utilised in the standard model. The following economic variables were identified for the current and prior years:

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

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

The three scenarios project the future impact of the economic variables on the impairment provision. Management has assigned a probability of 60% to the downside scenario, 30% to the base scenario and 10% to the upside scenario for the 12 month forecast for both the current year and prior year using this model. The probabilities used for the standard model anticipates deterioration in the general business environment and is not calibrated towards disruptive events such as the COVID-19 pandemic.

Expanded Economic Overlay Model to account for COVID-19

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

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

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

Notes to the summary financial statements continued

for the year ended 31 March 2020

2. Trade and other receivables continued

2.1 Trade receivables continued

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

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

Impact of forward-looking information on ECL

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

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

Combined impairment and contractual arrears table

The table reflects the following:

- A summary of the main groupings of payment ratings describing payment behaviour.
- For each of the main groupings of payment ratings, the following is disclosed:
  - number of customers;
  - gross carrying value;
  - impairment provision allocated to each grouping; and
  - contractual arrears for each grouping have been categorised by number of instalments in arrears.

The table referred to above is set out on the following page.

2. Trade and other receivables continued

2.1 Trade receivables continued

Debtors analysis

31 March 2020

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

Credit impaired debtors as at 31 March 2020

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

2. Trade and other receivables continued

2.1 Trade receivables continued

Debtors analysis

31 March 2019

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

Credit impaired debtors as at 31 March 2019

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

Notes to the summary financial statements continued

for the year ended 31 March 2020

2. Trade and other receivables continued

2.1 Trade receivables continued

Interest rate risk

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

The average effective interest rate on instalment sale receivables is 22.9% (2019: 22.8%) and the average term of the sale is 32.8 months (2019: 32.8 months).

Fair value

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

2.2 Debtor costs

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

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

3. Insurance

3.1 Insurance investments

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

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

Fair value hierarchy

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

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

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

Notes to the summary financial statements continued

for the year ended 31 March 2020

3. Insurance continued

3.2 Investment income

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

4. Revenue

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

4.2 Retail revenue

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

Notes to the summary financial statements continued

for the year ended 31 March 2020

5. Borrowings cash and net finance costs

5.1 Borrowings, banking facilities and cash

	2020 Audited Rm	2019 Audited Rm
Interest-bearing borrowings		
Short-term banking facilities	**(922.1)**	–
Cash-on-hand and deposits	**1 193.4**	204.7
Net cash	**271.3**	204.7
Available facilities		
Banking facilities	**1 150.0**	1 500.0
Domestic Medium-Term Note Programme	**2 000.0**	2 000.0
	3 150.0	3 500.0
Available funds	**3 421.3**	3 704.7
Interest rate profile		
Interest rate profile of borrowings is as follows:		
– Bank borrowings include revolving credit and overnight facilities. Revolving credit facilities are at interest rates linked to three-month JIBAR. The interest rates on the overnight facilities are based on rates as determined by each of the banks based on market conditions. The weighted average interest rate at the end of the reporting period is 7.6% (2019: 9.1%).	**922.1**	–
	922.1	–
Cash and cash equivalents		
Cash-on-hand and deposits	**1 193.4**	204.7
	1 193.4	204.7

Notes to the summary financial statements continued

for the year ended 31 March 2020

5. Borrowings, banking facilities and cash continued

		2020 Audited Rm	2019 Audited Rm
5.2 Capital management			
Pre IFRS 16			
Net debt		**(271.3)**	(204.7)
Shareholder's equity		**4 835.9**	4 876.1
Gearing ratio	(%)	**(5.6)**	(4.2)
Post IFRS 16			
Net debt		**566.6**	
Shareholder's equity		**4 709.5**	
Gearing ratio	(%)	**12.0**	
5.3 Net finance costs			
Interest paid		**(98.0)**	(69.8)
Borrowings		**(20.1)**	(54.5)
Lease liabilities		**(71.5)**	–
Other		**(6.4)**	(15.3)
Interest received – bank		**12.4**	23.0
Interest received – other		**21.8**	–
Forward exchange contracts		**29.3**	17.3
Net finance costs		**(34.5)**	(29.5)

Notes to the summary financial statements continued

for the year ended 31 March 2020

6. Reportable segments

Primary

		Traditional Rm	Cash Rm	Group Rm
For the year ended 31 March 2020				
Revenue		**5 912.9**	**540.4**	**6 453.3**
Operating profit before investment income		**209.9**	**43.8**	**253.7**
Operating margin	(%)	**3.5**	**8.1**	**3.9**
Segment assets		**3 828.9**	**124.3**	**3 953.2**
For the year ended 31 March 2019				
Revenue		5 650.2	487.0	6 137.2
Operating profit before investment income		402.5	40.5	443.0
Operating margin	(%)	7.1	8.3	7.2
Segment assets		3 734.4	136.1	3 870.5

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

Geographical

	South Africa Rm	Namibia Rm	BLE [1] Rm	Group Rm
For the year ended 31 March 2020				
Revenue	**5 492.7**	**475.9**	**484.7**	**6 453.3**
For the year ended 31 March 2019				
Revenue	5 131.2	491.6	514.4	6 137.2

[1] *Botswana, Lesotho and Eswatini*

7. Gross profit

		2020 Audited Rm	2019 Audited Rm
Merchandise sales		**3 685.5**	3 519.9
Cost of merchandise sales		**(2 173.5)**	(2 069.3)
Merchandise gross profit		**1 512.0**	1 450.6
Gross profit percentage	(%)	**41.0**	41.2

Notes to the summary financial statements continued

for the year ended 31 March 2020

8. Cash flow from operations

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

9. Taxation

	2020 Audited Rm	2019 Audited Rm
Taxation charge		
Normal taxation	**34.7**	143.7
Current year	**66.4**	107.0
Prior year	**(31.7)**	36.7
Deferred taxation	**45.7**	(4.4)
Current year	**12.1**	23.3
Prior year	**33.6**	(27.7)
Withholding tax	**10.0**	15.0
Taxation per income statement	**90.4**	154.3
Tax rate reconciliation		
Profit before taxation	**272.8**	463.8
Taxation calculated at a tax rate of 28% (2019: 28%)	**76.4**	129.9
Differing tax rates in foreign countries	**2.6**	3.5
Disallowances	**14.0**	7.9
Exemptions	**(14.5)**	(11.0)
Prior years	**1.9**	9.0
Withholding tax	**10.0**	15.0
Taxation per income statement	**90.4**	154.3
Effective tax rate (%)	**33.1**	33.3

Notes to the summary financial statements continued

for the year ended 31 March 2020

10. Depreciation, amortisation and impairment

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

11. Leases

11.1 Lease liabilities recognised

	2020 Audited Rm
Recognised on adoption of IFRS 16	**856.1**
Reallocated to restoration provision	**(33.4)**
Additions and renewed leases	**269.3**
Expired, renegotiated and modified leases	**2.1**
Principal portion of lease liabilities	**(256.2)**
Interest on lease liabilities	**71.5**
Lease liability payments	**(327.7)**
Closing balance	**837.9**
Analysed as follows:	**837.9**
Non-current	**611.1**
Current	**226.8**

11.2 Right-of-use assets

Land and buildings	2020 Audited Rm
Recognised on adoption of IFRS 16	**726.2**
Additions and renewed leases	**269.3**
Expired, renegotiated and modified leases	**(3.4)**
Depreciation	**(271.8)**
Impairment	**(26.6)**
Closing balance	**693.7**

Notes to the summary financial statements continued

for the year ended 31 March 2020

12. New standards and interpretations not yet effective

IFRS 17 Insurance Contracts

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

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

Contracts are measured using the building blocks of:

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

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

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

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

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

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

13. Post balance sheet events – COVID-19 pandemic

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

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

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

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

Notes to the summary financial statements continued

for the year ended 31 March 2020

13. Post balance sheet events – COVID-19 pandemic continued

13.1 COVID-19 Lockdown and its impact on the group's trading continued

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

13.2 Impact on Financial Results for the year ended 31 March 2020

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

	Impact on earnings Rm	Impact on headline earnings Rm
Impact on operating results:		
Increase in the impairment provision as a result of lost collections due to store closures in March	**(123.2)**	**(123.2)**
Impact on forward-looking information:		
IFRS 9 – Economic overlay for debtors' impairment (refer note 2)	**(189.5)**	**(189.5)**
IFRS 16/ IAS 36 – Impairment of right-of-use asset (refer note 11.2)	**(26.6)**	**–**
Impact before taxation	**(339.3)**	**(312.7)**
Taxation	**96.0**	**89.2**
Impact after taxation	**(243.3)**	**(223.5)**

13.3 Subsequent impact on the group

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

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

Lewis Group Limited: Summary financial statements

Key ratios

for the year ended 31 March 2020

		2020	2019
Operating efficiency ratios			
Gross profit margin	(%)	**41.0**	41.2
Operating profit margin	(%)	**3.9**	7.2
Number of stores		**794**	784
Number of employees	(average)	**8 374**	8 101
Trading space	(sqm)	**249 538**	254 590
Inventory turn*	(times)	**2.9**	3.1
Current ratio		**2.8**	5.9
Credit ratios			
Credit sales	(%)	**56.9**	57.9
Debtor costs as a % of debtors at gross carrying value*	(%)	**17.6**	13.3
Debtors impairment provision as a % of debtors at gross carrying value*	(%)	**44.1**	42.0
Arrear instalments on satisfactory paid accounts as a % of total debtors at gross carrying value*	(%)	**10.7**	8.8
Arrear instalments on slow paying and non-performing accounts as a % of total debtors at gross carrying value*	(%)	**26.0**	26.2
Credit applications decline rate	(%)	**37.5**	37.4
Shareholder ratios			
Net asset value per share	(cents)	**6 126**	6 081
Gearing ratio – pre IFRS 16	(%)	**(5.6)**	(4.2)
Gearing ratio – post IFRS 16	(%)	**12.0**	
Dividend payout ratio	(%)	**78.9**	61.1
Return on average shareholders' funds (after-tax)*	(%)	**3.8**	6.4
Return on average capital employed (after-tax)*	(%)	**3.7**	6.5
Return on average assets managed (pre-tax)*	(%)	**4.8**	8.5

Notes:

1. *All ratios are based on figures at the end of the period unless otherwise disclosed.*
2. *The net asset value has been calculated using 76 873 000 shares in issue (2019: 80 194 000).*
3. *Total assets exclude the deferred tax asset.*
4. *Ratios marked with an asterisk calculated for the prior year assuming that IFRS 9, IFRS 15 and reclassifications were implemented as at 31 March 2018. No similar adjustment was made for the adoption of IFRS 16 as it was immaterial.*

Corporate information

Non-executive directors:	Hilton Saven (independent non-executive chairman), Prof. Fatima Abrahams, Adheera Bodasing, Daphne Motsepe, Tapiwa Njikizana, Duncan Westcott
Executive directors:	Johan Enslin (Chief Executive Officer) Jacques Bestbier (Chief Financial Officer)
Company secretary:	Ntokozo Makomba
Transfer secretaries:	Computershare Investor Services (Pty) Ltd; Private Bag X9000, Saxonwold, 2132, South Africa Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 South Africa
Auditors:	PricewaterhouseCoopers Inc.
Sponsor:	UBS South Africa (Pty) Ltd
Debt sponsor:	Absa Bank Limited, acting through its Corporate and Investment Banking Division
Registered office:	53A Victoria Road, Woodstock, 7925
Registration number:	2004/009817/06
Share code:	LEW
ISIN:	ZAE 000058236
Bond code:	LEWI

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