Lewis Group Ltd

UNAUDITED INTERIM RESULTS for the six months ended 30 September 2016

GROSS MARGIN EXPANDED	OPERATING MARGIN DOWN	HEADLINE EARNINGS PER SHARE	INTERIM DIVIDEND
TO 40.5%	TO 10%	39.6% LOWER	100c PER SHARE

TRADING AND FINANCIAL PERFORMANCE

The challenging economic and consumer environment in the country, coupled with the ongoing impact of the National Credit Regulator's affordability assessment regulations, has severely impacted the group's merchandise sales and in particular credit sales over the past six months.

The affordability regulations require customers to provide their three latest salary advices or bank statements as part of the credit approval process. This is proving a major challenge for many customers in the group's lower- to middle-income target market who are self-employed or work in the informal sector, restricting their access to credit.

Merchandise sales increased by 1% while like for like store merchandise sales declined by 9.2%. Revenue for the six months declined by 2% to R2.7 billion. This was mainly as a result of a 4% drop in other revenue, where insurance revenue and services rendered declined by 8% owing to the lower credit sales. Group credit sales declined by 2.3% (like for like credit sales 11% down) and accounted for 63.4% (2015: 65.9%) of total sales. Credit sales in Beares account for 52.9% of it's total sales while in Lewis and Best Home and Electric 67.4% of their sales are on credit.

The gross profit margin strengthened by 410 basis points to 40.5% benefiting from the change in the product mix where the higher margin furniture category increased to 58.3% of total sales as opposed to 54.7% in the comparable period. Improved pricing on new product ranges and competitively priced merchandise sourced from local suppliers also supported the margin.

Operating costs, excluding debtor costs, increased by 8.4% mainly as a result of the integration costs of the 56 Beares and Ellerines stores acquired in Botswana, Lesotho, Namibia and Swaziland. Excluding Beares, operating costs across Lewis and Best Home & Electric were well managed to an increase of 2.9%. Beares has a higher cost structure than the group's other brands and it is expected to take another two years to more closely align the Beares expense base with the rest of the group.

The group's operating margin was impacted by slower revenue growth, the Beares integration costs and higher debtor costs, and contracted to 10.0% (H1 2016: 14.7%). Headline earnings declined from R287 million to R173 million with headline earnings per share 39.6% lower and earnings per share 41.4% lower than the corresponding prior period. These results are in line with the group's trading statement released on SENS on 21 October 2016.

DEBTOR MANAGEMENT

Debtor cost growth slowed to 7.3% for the period. Debtor costs as a percentage of net debtors increased from 8.1% to 8.6% owing to higher bad debt levels. The level of satisfactory paid customers at 67.9% is similar to last year's 68.1% despite the deteriorating consumer credit environment.

STORE EXPANSION

The portfolio of 56 Ellerines and Beares stores acquired in Botswana (20 stores), Lesotho (10 stores), Namibia (21 stores) and Swaziland (5 stores) have been successfully integrated into the group's operations. The group now has 118 stores outside of South Africa, accounting for 15% of the total store base.

At the end of September the group traded out of 780 outlets. The group is consolidating its store base in smaller towns which can no longer support multiple stores and where competitors have closed stores and expects a net reduction of 10 stores during half two, resulting in 770 outlets trading by the end of the financial year.

PROSPECTS

Trading conditions are not expected to improve over the remainder of the financial year as consumers face increasing pressures on disposable income.

The directors are positive about the group's medium- to longer-term prospects and the business remains cash generative with low levels of gearing at 18.8% (H1 2016: 27.6%), reflecting the strength of the balance sheet.

The newly acquired stores in the rest of Africa are showing encouraging sales performance and are expected to make a solid contribution to the group's revenue and profitability in the medium term.

INTERIM DIVIDEND DECLARATION

The board has decided to declare an interim dividend of 100 cents per share which represents a 55% payout of the net profit attributable to ordinary shareholders.

Notice is hereby given that an interim gross cash dividend of 100 cents per share in respect of the period ended 30 September 2016 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 15%. The dividend for determining the dividend tax is 100 cents and the dividend tax payable is 15 cents for shareholders who are not exempt. The net dividend for shareholders who are not exempt will therefore be 85 cents. The dividend tax rate may be reduced where the shareholder is tax resident in a foreign jurisdiction which has a Double Tax Convention with South Africa and meets the requirements for a reduced rate. The company's tax reference number is 9551/419/15/4.

The following dates are applicable to this declaration:

Last date of trade "cum" dividend	Tuesday 17 January 2017
Date of trading commences "ex" dividend	Wednesday 18 January 2017
Record date	Friday 20 January 2017
Date of payment	Monday 23 January 2017

Share certificates may not be dematerialised or rematerialised between Wednesday 18 January 2017 and Friday 20 January 2017, both days inclusive.

For and on behalf of the Board

David Nurek	**Johan Enslin**	**Les Davies**
Independent	*Chief executive officer*	*Chief financial officer*
Non-executive chairman		

Cape Town

9 November 2016

INCOME STATEMENT

	Notes	6 months ended 30 Sept 2016 Unaudited Rm	Change %	6 months ended 30 Sept 2015 Unaudited Rm	12 months ended 31 March 2016 Audited Rm
Revenue		**2 745.8**	(1.9)	2 797.8	5 785.0
Merchandise sales		**1 233.0**		1 226.8	2 667.7
Finance charges and initiation fees earned		**731.9**		722.3	1 426.3
Insurance revenue		**420.3**		456.6	908.2
Gross earned insurance premiums		**318.1**		445.9	896.8
Reinsurance commission		**106.4**		134.8	256.7
Reinsurance premiums		**(4.2)**		(124.1)	(245.3)
Ancillary services		**360.6**		392.1	782.8
Cost of merchandise sales		**(733.9)**		(780.6)	(1 652.8)
Operating costs		**(1 736.9)**		(1 607.0)	(3 317.2)
Employment costs		**(498.0)**		(475.5)	(946.3)
Administration and IT		**(156.5)**		(127.1)	(274.5)
Debtor costs	2	**(502.1)**		(468.1)	(1 005.1)
Marketing		**(112.9)**		(103.4)	(192.4)
Occupancy costs		**(183.1)**		(160.3)	(329.1)
Transport and travel		**(101.7)**		(110.4)	(224.2)
Depreciation and amortisation		**(48.5)**		(45.1)	(85.6)
Other operating costs		**(134.1)**		(117.1)	(260.0)
Operating profit before investment income		**275.0**	(33.0)	410.2	815.0
Investment income	3	**58.0**		67.3	600.6
Profit before finance costs		**333.0**		477.5	1 415.6
Net finance costs		**(80.5)**		(60.2)	(136.1)
Interest paid		**(96.9)**		(71.7)	(158.4)
Interest received		**25.9**		6.2	14.0
Forward exchange contracts		**(9.5)**		5.3	8.3
Profit before taxation		**252.5**		417.3	1 279.5
Taxation	8	**(78.2)**		(119.3)	(318.0)
Net profit attributable to ordinary shareholders		**174.3**	(41.5)	298.0	961.5

STATEMENT OF COMPREHENSIVE INCOME

	Notes	6 months ended 30 Sept 2016 Unaudited Rm	Change %	6 months ended 30 Sept 2015 Unaudited Rm	12 months ended 31 March 2016 Audited Rm
Net profit for the year		**174.3**		298.0	961.5
Items that may be subsequently reclassified to income statement:		**2.3**		(29.8)	(456.7)
Fair value adjustment to available-for-sale investments		**13.3**		(50.4)	(71.2)
Disposal of available-for-sale investments		**–**		10.2	(406.3)
Foreign currency translation reserve		**(11.0)**		10.4	20.8
Items that may not be subsequently reclassified to income statement:					
Retirement benefit remeasurements		**–**		–	(2.3)
Other comprehensive income		**2.3**		(29.8)	(459.0)
Total comprehensive income for the period attributable to equity shareholders		**176.6**		268.2	502.5

EARNINGS AND DIVIDENDS PER SHARE

	6 months ended 30 Sept 2016 Unaudited Rm	Change %	6 months ended 30 Sept 2015 Unaudited Rm	12 months ended 31 March 2016 Audited Rm
1. Weighted average number of shares ('000)				
Weighted average	**88 671**		88 829	88 811
Diluted weighted average	**88 776**		89 160	89 532
2. Headline earnings (Rm)				
Attributable earnings	**174.3**		298.0	961.5
Profit on disposal of property, plant and equipment	**(0.4)**		(1.2)	(2.7)
Profit on disposal of available-for-sale investments	**–**		(10.2)	(406.3)
Gain on acquisition of Beares	**(1.2)**		–	(0.4)
Headline earnings	**172.7**	(39.7)	286.6	552.1
3. Earnings per share (cents)				
Earnings per share	**196.6**	(41.4)	335.5	1 082.6
Diluted earnings per share	**196.3**		334.2	1 073.9
4. Headline earnings per share (cents)				
Headline earnings per share	**194.8**	(39.6)	322.6	621.7
Diluted headline earnings per share	**194.5**		321.4	616.7
5. Dividends per share (cents)				
Dividends paid per share				
Final dividend 2016 (2015)	**302.0**		302.0	302.0
Interim dividend 2017 (2016)	**–**		–	215.0
	302.0		302.0	517.0
Dividends declared per share				
Interim dividend 2017 (2016)	**100.0**		215.0	215.0
Final dividend 2017	**–**		–	302.0
	100.0		215.0	517.0

BALANCE SHEET

	Notes	30 Sept 2016 Unaudited Rm	30 Sept 2015 Unaudited Rm	31 March 2016 Audited Rm
Assets				
Non-current assets				
Property, plant and equipment		**362.5**	362.1	370.4
Goodwill		**8.9**	–	–
Trademarks		**68.3**	58.6	61.4
Deferred taxation		**61.5**	0.8	85.7
Retirement benefit asset		**63.0**	77.4	63.0
Financial assets – insurance investments	4	**449.9**	1 707.4	432.0
		1 014.1	2 206.3	1 012.5
Current assets				
Inventories		**449.6**	518.7	444.5
Trade and other receivables	5	**4 472.3**	4 397.5	4 514.3
Reinsurance assets	6	**269.8**	435.7	397.3
Insurance premiums in advance		**739.1**	1 317.4	1 185.4
Taxation		**206.4**	96.5	28.3
Financial assets – insurance investments	4	**818.1**	106.2	1 236.5
Cash on hand and deposits		**836.3**	247.4	587.2
		7 791.6	7 119.4	8 393.5
Total assets		**8 805.7**	9 325.7	9 406.0
Equity and liabilities				
Capital and reserves				
Share capital and premium		**108.0**	107.5	92.1
Other reserves		**20.0**	454.8	27.5
Retained earnings		**5 235.0**	4 858.9	5 329.8
		5 363.0	5 421.2	5 449.4
Non-current liabilities				
Long-term interest-bearing borrowings		**1 100.0**	1 025.0	1 375.0
Deferred taxation		**69.3**	67.0	60.8
Retirement benefit liability		**107.7**	108.1	100.2
		1 277.0	1 200.1	1 536.0
Current liabilities				
Trade and other payables		**376.7**	275.6	270.2
Reinsurance and insurance liabilities	6	**1 044.9**	1 707.8	1 550.4
Short-term interest-bearing borrowings		**744.1**	721.0	600.0
		2 165.7	2 704.4	2 420.6
Total equity and liabilities		**8 805.7**	9 325.7	9 406.0

CASH FLOW STATEMENT

	Note	6 months ended 30 Sept 2016 Unaudited Rm	6 months ended 30 Sept 2015 Unaudited Rm	12 months ended 31 March 2016 Audited Rm
Cash flow from operating activities				
Cash flow from trading		**352.8**	669.2	1 104.7
Change in working capital		**274.8**	(238.0)	(154.3)
Cash generated from operations		**627.6**	431.2	950.4
Interest received		**83.9**	45.6	99.3
Dividends received		**–**	15.4	19.7
Interest paid		**(106.4)**	(66.4)	(150.1)
Taxation paid		**(230.4)**	(203.8)	(330.3)
		374.7	222.0	589.0
Cash flow from investing activities				
Net disposals/(acquisition) of insurance investments		**419.0**	(11.6)	79.6
Purchase of insurance investments		**(1 992.1)**	(63.5)	(1 574.8)
Disposal of insurance investments		**2 411.1**	51.9	1 654.4
Acquisition of property, plant and equipment		**(38.3)**	(58.0)	(104.3)
Purchase of businesses	7	**(111.0)**	–	(101.1)
Proceeds on disposal of property, plant and equipment		**3.7**	6.9	12.7
		273.4	(62.7)	(113.1)
Cash flow from financing activities				
Dividends paid		**(268.1)**	(268.0)	(459.0)
Proceeds from borrowings		**–**	150.0	1 150.0
Repayments of borrowings		**(150.0)**	–	(700.0)
Purchase of own shares		**–**	(38.2)	(53.0)
		(418.1)	(156.2)	(62.0)
Net increase in cash and cash equivalents		**230.0**	3.1	413.9
Cash and cash equivalents at the beginning of the period		**587.2**	173.3	173.3
Cash and cash equivalents at the end of the period		**817.2**	176.4	587.2
Analysis of borrowings and facilities				
Borrowings				
Long-term		**1 100.0**	1 025.0	1 375.0
Short-term		**725.0**	650.0	600.0
		1 825.0	1 675.0	1 975.0
Cash and cash equivalents				
Short-term facilities utilised		**19.1**	71.0	–
Cash on hand		**(836.3)**	(247.4)	(587.2)
		(817.2)	(176.4)	(587.2)
Net borrowings		**1 007.8**	1 498.6	1 387.8
Unutilised facilities:				
Banking facilities		**1 567.2**	926.4	1 337.2
Domestic Medium-Term Note Programme		**1 700.0**	1 700.0	1 700.0
Banking facilities and Domestic Medium-Term Note Programme		**4 275.0**	4 125.0	4 425.0

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; 70 Marshall Street, Johannesburg, 2001; 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 welcome home · BEST HOME AND ELECTRIC · BEARES Really Cares about You! · Monarch Insurance Company Ltd.

UNAUDITED INTERIM RESULTS

for the six months ended 30 September 2016

STATEMENT OF CHANGES IN EQUITY

	6 months ended 30 Sept 2016 Unaudited Rm	6 months ended 30 Sept 2015 Unaudited Rm	12 months ended 31 March 2016 Audited Rm
Share capital and premium			
Opening balance	**92.1**	110.8	110.8
Cost of own shares acquired (treasury shares)	**–**	(38.2)	(53.0)
Share awards to employees	**15.9**	34.9	34.3
	108.0	107.5	92.1
Other reserves			
Opening balance	**27.5**	492.4	492.4
Other comprehensive income for the year (refer statement of comprehensive income)	**2.3**	(29.8)	(456.7)
Share-based payment	**5.1**	10.6	10.3
Transfers to retained earnings	**(14.9)**	(18.4)	(18.5)
	20.0	454.8	27.5
Retained earnings			
Opening balance	**5 329.8**	4 845.4	4 845.4
Net profit attributable to ordinary shareholders	**174.3**	298.0	961.5
Distribution to shareholders	**(268.1)**	(268.0)	(459.0)
Transfers from other reserves	**14.9**	18.4	18.5
Share awards to employees	**(15.9)**	(34.9)	(34.3)
Retirement benefit remeasurements	**–**	–	(2.3)
	5 235.0	4 858.9	5 329.8
Balance at the end of period	**5 363.0**	5 421.2	5 449.4

SEGMENTAL REPORT

Reportable segment	Lewis Rm	Best Home and Electric Rm	Beares Rm	Group Rm
For the six months ended 30 September 2016 (unaudited)				
Revenue	**2 046.8**	**353.6**	**345.4**	**2 745.8**
Segment operating profit before investment income	**217.8**	**55.2**	**2.0**	**275.0**
Operating margin	**10.6%**	**15.6%**	**0.6%**	**10.0%**
Segment assets	**3 571.4**	**605.8**	**474.2**	**4 651.4**
For the six months ended 30 September 2015 (unaudited)				
Revenue	2 226.2	382.1	189.5	2 797.8
Segment operating profit before investment income	362.1	70.7	(22.6)	410.2
Operating margin	16.3%	18.5%	(11.9%)	14.7%
Segment assets	3 841.0	641.2	308.1	4 790.3
For the twelve months ended 31 March 2016 (audited)				
Revenue	4 564.7	793.3	427.0	5 785.0
Segment 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

KEY RATIOS

		6 months ended 30 Sept 2016	6 months ended 30 Sept 2015	12 months ended 31 March 2016
Operating efficiency ratios				
Gross profit margin		**40.5%**	36.4%	38.0%
Operating profit margin		**10.0%**	14.7%	14.1%
Number of stores		**780**	724	760
Number of permanent employees	(average)	**8 767**	8 421	8 409
Trading space	(sqm)	**260 934**	241 812	254 566
Inventory turn		**3.6**	3.3	3.7
Current ratio		**3.6**	2.6	3.5
Credit ratios				
Credit sales		**63.4%**	65.9%	64.3%
Debtor costs as a percentage of the net debtors		**8.6%**	8.1%	17.1%
Debtors' impairment provision as a percentage of net debtors		**27.8%**	26.2%	26.1%
Arrear instalments on satisfactory paying accounts as a percentage of gross debtors		**9.9%**	9.4%	9.9%
Arrear instalments on slow-paying and non-performing accounts as a percentage of gross debtors		**28.6%**	26.7%	26.8%
Credit applications decline rate		**40.5%**	40.8%	39.3%
Shareholder ratios				
Net asset value per share	(cents)	**6 040**	6 104	6 158
Gearing ratio		**18.8%**	27.6%	25.5%
Dividend payout ratio		**55.0%**	70.7%	52.7%
Return on average equity (after-tax)		**6.4%**	11.0%	17.6%
Return on average capital employed (after-tax)		**6.4%**	9.6%	14.7%
Return on average assets managed (pre-tax)		**7.6%**	10.8%	15.9%

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 88 790 000 shares in issue (2015: 88 808 000).

3. Total assets exclude the deferred tax assets and reinsurance asset.

4. Prior period ratios have been recalculated for the reclassifications made in the 2016 financial year.

These results are also available on our website: www.lewisgroup.co.za

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of reporting

The condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standard, IAS 34: Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act of South Africa. The accounting policies applied in the preparation of these interim financial statements are in terms of International Financial Reporting Standards and consistent with those applied in the consolidated annual financial statements for the year ended 31 March 2016 ("previous year"). The financial statements have been prepared under the supervision of the Chief Financial Officer, Les Davies CA(SA).

The comparatives for the six months ended 30 September 2015 have been restated for the reclassifications made in the previous year. The detail of these reclassifications have been set out in note 2.2 in the previous year's annual financial statements. The reclassification has had the effect on the balance sheet as at 30 September 2015 of decreasing trade and other receivables by R503.2 million, disclosing the reinsurance asset of R435.7 million and insurance premiums paid in advance of R1 317.4 million and increasing reinsurance and insurance liabilities by R1 249.9 million.

	6 months ended 30 Sept 2016 Unaudited Rm	6 months ended 30 Sept 2015 Unaudited Rm	12 months ended 31 March 2016 Audited Rm
2. Debtor costs			
Bad debts, repossession losses and bad debt recoveries	**415.7**	243.9	765.8
Movement in impairment provision	**86.4**	224.2	239.3
	502.1	468.1	1 005.1
3. Investment income			
Interest – insurance business	**58.0**	39.4	85.3
Dividends from listed investments – insurance business	**–**	15.4	19.7
Realised profit on disposal of insurance investments	**–**	12.5	495.6
	58.0	67.3	600.6

The move from term to monthly insurance policies will significantly reduce the capital required by the group's insurance subsidiary. To limit risk, the insurance subsidiary in the prior year sold the equity and a large portion of the bond portfolio releasing a capital gain of R495.6 million which was included in investment income (taxed at capital gains rate).

4. Insurance investments available-for-sale			
Listed			
Listed shares	**–**	843.0	–
Fixed income securities	**449.9**	864.4	432.0
Unlisted			
Money market	**818.1**	106.2	1 236.5
	1 268.0	1 813.6	1 668.5

Investments are classified as available-for-sale and reflected at fair value. Changes in fair value are reflected in the statement of comprehensive income.

In terms of the fair value hierarchy set out in IFRS 13, listed and unlisted investments are categorised as Level 1 and Level 2 respectively.

The decline in insurance investments is due to lower insurance reserves being required as a consequence of the group's insurance subsidiary now selling monthly policies as opposed to term policies previously sold.

5. Trade and other receivables			
Instalment sale and loan receivables	**6 372.6**	6 402.8	6 482.6
Unearned provisions	**(550.8)**	(612.7)	(606.3)
Provision for unearned maintenance income	**(338.6)**	(384.1)	(376.5)
Provision for unearned initiation fees and unearned finance charges	**(212.2)**	(228.6)	(229.8)
Net instalment sale and loan receivables	**5 821.8**	5 790.1	5 876.3
Provision for impairment	**(1 620.0)**	(1 518.5)	(1 533.6)
	4 201.8	4 271.6	4 342.7
Other receivables	**270.5**	125.9	171.6
	4 472.3	4 397.5	4 514.3

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.

The average effective interest rate on instalment sale and loan receivables is 22.3% (2015: 22.0%) and the average term of the sale is 32.9 months (2015: 33.4 months).

6. Reinsurance and insurance liabilities			
Unearned premium reserve net of reinsurance	**475.6**	814.2	726.8
Unearned Insurance Premiums	**710.2**	1 226.2	1 090.8
Less: reinsurer's share of unearned premiums	**(234.6)**	(412.0)	(364.0)
Due to reinsurers	**50.0**	123.7	98.4
Other insurance and reinsurance provisions	**249.5**	334.2	327.9
Gross reinsurance and insurance provisions	**284.7**	357.9	361.2
Less: reinsurer's share of insurance provisions	**(35.2)**	(23.7)	(33.3)
	775.1	1 272.1	1 153.1
Disclosed as:			
Reinsurance assets	**(269.8)**	(435.7)	(397.3)
Reinsurance and insurance liabilities	**1 044.9**	1 707.8	1 550.4
	775.1	1 272.1	1 153.1

Reinsurance and insurance liabilities have declined due to the group's insurance subsidiary now selling monthly policies as opposed to term policies previously sold.

7. Purchase of businesses			
Trademarks	**(8.4)**	–	(6.0)
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
Goodwill	**(8.9)**	–	–
Gain on acquisition of Beares	**1.2**	–	0.4
Total consideration	**(111.0)**	–	(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 businesses consisted of 30 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 are trading either under the Lewis or Beares brands.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	6 months ended 30 Sept 2016 Unaudited Rm	6 months ended 30 Sept 2015 Unaudited Rm	12 months ended 31 March 2016 Audited Rm
8. The rate of taxation on profit is reconciled as follows:			
Profit before taxation	**252.5**	417.3	1 279.5
Taxation calculated at a tax rate of 28% (2015: 28%)	**70.7**	116.8	358.3
Differing tax rates in foreign countries	**4.2**	4.0	5.4
Disallowed expenses	**3.3**	5.5	11.2
Exempt income (refer to note 3)	**–**	(5.5)	(54.7)
Prior years	**–**	(1.5)	(2.2)
Taxation per income statement	**78.2**	119.3	318.0
Effective tax rate	**31.0%**	28.6%	24.9%

9. 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. 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. A date for the hearing of this matter is likely to be set by the NCT at a pre-hearing meeting held on 7 November 2016.

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 summons 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.

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.

9. Regulatory matters (continued)

In October 2016, the Court handed down judgment 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. A date still has to be arranged between the parties and the Court for such application to be heard. Lewis will be opposing the application for leave to appeal.

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.

10. Credit risk

10.1 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.
- Assessing client affordability: This process involves collecting information regarding the customer's income levels, expenses and current debt obligations.
- 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.

10.2 Impairment provision

The customers 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 customers actual payments received over the lifetime of the account relative to the instalments due in terms of the contract. These payment ratings are used to categorise and report on customers at the store level to follow up the slow paying and non-performing customers. 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 impairment calculation is performed on a monthly basis taking into account the payment behaviour of the debtor's book having regard to the payment rating and age of the debtor's account. Various profiles of the impairment provision are prepared monthly. The credit risk systems also produces customer payment data. The aforementioned and the key indicators are monitored by senior management to analyse and assess the state of the debtor's book. Daily collection statistics are also collated to identify trends early.

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

- Number of satisfactorily 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 due to longer term business settling in the base. 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.

10.3 Contractual arrears

The key aspect of the arrear 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. The group does not consider arrears the leading indicator, but rather relies on payment ratings.

10.4 Debtor costs (Impairment losses)

The group employs a store-based collection system which allows the collection staff to deal with customers face to face, thus maximising collections and minimising debtors costs. Bad debt write-offs are initiated where the customer payment behaviour cannot be rehabilitated. Bad debts result where the customer's account is written off or the goods repossessed. The decision to write-off will take into account where applicable, recent payment behaviour, payment ratings, age of the account, whether the customer has exceeded their contractual terms and arrears. Debtor costs are set out in note 2.

10.5 Debtors' Analysis

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 included in this amount.
  - Impairment provision allocated to each grouping.
  - Contractual arrears for each grouping split per number of instalments in arrears.

The table referred to above is set out below:

Gross debtor analysis Customer grouping	Period		Number of customers Total	Gross receivables R'000	Impairment provision R'000	Total arrears R'000	Instalments in arrears 1 R'000	2 R'000	3 R'000	4 R'000	> 4 R'000
Satisfactory paid 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.	**Sept 2016**	**No**	**442 103**	**3 616 595**	**37 673**	**629 534**	**167 576**	**119 407**	**89 852**	**67 936**	**184 763**
		%	**67.9**	**56.9**	**2.3**						
	Sept 2015	No	471 067	3 704 323	29 763	604 044	170 442	118 611	87 217	64 430	163 344
		%	68.1	58.0	2.0						
	Mar 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 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 for the current period ranges from 14% to 66% (Sept 2015: 12% to 72%) of amounts due.	**Sept 2016**	**No**	**53 090**	**540 194**	**187 597**	**324 927**	**36 791**	**35 727**	**33 884**	**31 618**	**186 907**
		%	**8.2**	**8.5**	**11.6**						
	Sept 2015	No	55 647	524 883	155 838	289 009	36 313	35 011	32 555	29 822	155 308
		%	8.1	8.2	10.3						
	Mar 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 Customers who have paid between 55% and 65% of amounts due over the contract period. The provision on this category for the current period ranges from 24% to 78% (Sept 2015: 23% to 84%) of amounts due.	**Sept 2016**	**No**	**49 167**	**585 809**	**248 481**	**372 092**	**34 396**	**32 708**	**31 563**	**30 298**	**243 127**
		%	**7.6**	**9.1**	**15.3**						
	Sept 2015	No	50 641	546 102	212 694	318 561	32 894	30 878	29 332	27 859	197 598
		%	7.3	8.5	14.0						
	Mar 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 Customers who have paid 55% or less of amounts due over the contract period. The provision in this category for the current period ranges from 33% to 100% (Sept 2015: 31% to 100%) of amounts due.	**Sept 2016**	**No**	**106 643**	**1 629 870**	**1 146 198**	**1 125 994**	**73 369**	**72 060**	**71 016**	**70 022**	**839 527**
		%	**16.3**	**25.5**	**70.8**						
	Sept 2015	No	113 869	1 627 385	1 120 179	1 103 400	73 851	72 336	70 696	69 257	817 260
		%	16.5	25.3	73.7						
	Mar 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						
	Sept 2016		**651 003**	**6 372 468**	**1 619 949**	**2 452 547**	**312 132**	**259 902**	**226 315**	**199 874**	**1 454 324**
	Sept 2015		691 224	6 402 693	1 518 474	2 315 014	313 500	256 836	219 800	191 368	1 333 510
	Mar 2016		668 082	6 482 617	1 533 613	2 376 150	319 111	260 056	221 796	192 426	1 382 761

Net debtor analysis	Period	Gross receivables R'000	Unearned provision R'000	Net receivable R'000	Impairment R'000	Impairment %
	Sept 2016	**6 372 468**	**(550 728)**	**5 821 740**	**1 619 949**	**27.8**
	Sept 2015	6 402 693	(612 714)	5 789 979	1 518 474	26.2
	Mar 2016	6 482 617	(606 354)	5 876 263	1 533 613	26.1

ince