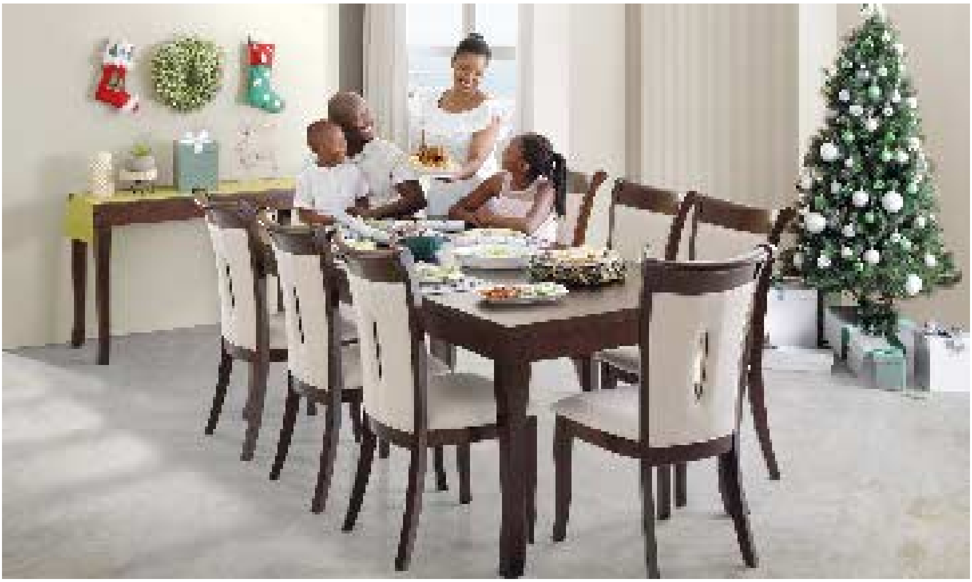


UNAUDITED INTERIM RESULTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018
(INCLUDING IFRS 9 IMPLEMENTATION REPORT)

Highlights

Merchandise sales
^
25.9%

Gross profit margin
39.9%

Debtor costs reduced by
20.8%

Merchandise sales excluding UFO
^
8.1%

Headline earnings per share
^
10.7%

Interim dividend up
^
5%
to 105 cents per share

Balance sheet ungeared

Launched omni-channel retailer INspire

Commentary

Trading and financial performance

The turnaround in performance has continued and Lewis Group delivered strong merchandise sales growth, tight cost control, lower debtor costs and growth in earnings. This is supported by early benefits from the group's diversification strategy.

Merchandise sales were boosted by the acquisition of United Furniture Outlets (UFO) and increased by 25.9% to R1.6 billion. UFO contributed sales of R230 million for the six months following the successful integration of the brand into the group. Excluding the sales from UFO, the group's merchandise sales grew by 8.1%. Comparable store sales increased by 7.8%. Stores outside South Africa contributed 22% (H1 2018: 24.3%) of merchandise sales.

Cash sales increased by 72%, driven primarily by UFO which is a cash retailer, and credit sales by 4.2%. Group credit sales accounted for 57.1% (H1 2018: 68.8%) of total sales.

Group revenue increased by 11.2% and by 2.4% excluding the contribution from UFO (9.3% and 0.4% after adjustment for credit impaired accounts). Other revenue, incorporating finance charges and initiation fees, insurance premiums and services rendered, declined by 2.8% (6.6% after adjustment for credit impaired accounts) mainly due to lower credit sales in prior years which limited annuity income as well as the adverse impact of regulatory capping of credit insurance.

The group's gross profit margin at 39.9% (H1 2018: 41.6%) remains within management's target range of 38% to 42%.

The growth in operating costs, excluding debtor costs, was contained well below the growth in sales and increased by 12.9%. Excluding UFO, costs increased by 6.8%. Marketing and promotional costs were increased to support sales growth, including the launch of INspire, the omni-channel home shopping business.

The group's operating margin declined from 7.2% to 6.7%, mainly due to the decline in other revenue, and is within management's guided range of 5% to 10%.

Finance costs showed a R21.3 million year-on-year movement owing mainly to gains on forward exchange contracts covering merchandise imports.

Headline earnings increased by 4.5% to R149.6 million (H1 2018: R143.1 million) with headline earnings per share 10.7% higher at 180.8 cents (H1 2018: 163.3 cents).

The balance sheet is ungeared at the half year. The group's net asset value per share declined by 9.4% to 5 922 cents owing to the impact of the introduction of IFRS 9 (refer to Debtor Impairment below).

The group remains highly cash generative with cash and cash equivalents totalling R543 million at the end of the reporting period.

The group has increased its interim dividend by 5% to 105 cents per share.

Commentary continued

Debtor management

Debtor costs continued to decline and reduced by 20.8% over the prior period (before adjustment for credit impaired accounts) as collection rates improved to 77.2% (H1 2018: 76.2%), despite the deteriorating consumer environment. Debtor costs (before credit impaired adjustment) as a percentage of net debtors decreased from 7.8% to 6.5%. The level of satisfactory paid customers improved to 69.9% from 68.4% at the end of the 2018 financial year.

Debtor impairment

IFRS 9 – Financial Instruments is effective for the group for the year ending 31 March 2019, replacing IAS 39 – Financial Instruments: Recognition and Measurements. The most significant impact of IFRS 9 on the group relates to the implementation of the forward-looking expected credit loss impairment model on the measurement of debtors. IAS 39 applied the incurred loss model. Refer to note 2 for further detail on the transition to IFRS 9.

The adoption of IFRS 9 does not impact on the group's credit management practices and business model and these will continue to be consistently applied as in the past.

The impact of the transition to IFRS 9 is that the total balance sheet impairment provision increased by R803 million from R1.62 billion as at 31 March 2018 to R2.42 billion as at 1 April 2018. This is mainly driven by an increase in the impairment of R658 million in the satisfactory paid category of accounts due to the forward-looking nature of the expected credit loss provisioning methodology.

The impairment provision of 29.6% under IAS 39 at 31 March 2018 consequently increased to 43.9% under IFRS 9 at 1 April 2018 following the adoption of IFRS 9.

At 30 September 2018 the impairment provision reduced to 43.5% from 43.9.% at 31 March 2018.

Expanding retail presence

The group's strategy of diversifying across market segments and retail channels continued with the integration of UFO and the launch of INspire.

UFO has enabled the group to access higher income customers while increasing the cash-to-credit sales mix. While the availability of space in upmarket shopping malls is proving to be a hurdle to expanding the chain, two stores were opened during the period. A further three stores opened in October and two more outlets are planned to open before December.

INspire aims to attract customers in the LSM 4 – 8 categories to extend the group's presence in urban areas. The business is marketed through outbound call centres, agents and online shopping, with an extensive product offering across linen, bedding, tableware, cookware and small electrical appliances. After a slower than expected start, INspire reported sales of R4.2 million for the four months to the end of September. The business is gaining momentum and sales for October were encouraging.

The group's store base increased to 779 following the opening of 14 stores and closure of 8 stores during the reporting period. This comprises Lewis (494 stores), Best Home and Electric (133 stores), Beares (119 stores) and UFO (33 stores). Lewis continues to open smaller format stores which now account for 43% of the brand's stores. During the period 92 stores were refurbished.

The number of stores in the neighbouring countries of Botswana, Lesotho, Namibia and Swaziland increased by 6 to 116, including the opening of the first 5 Best Home and Electric stores in Namibia.

Share repurchase programme

The group repurchased 1.7 million shares during the reporting period, at an average price of R29.41 per share. Since the commencement of the current share repurchase programme the group has bought back 4.2 million shares at an average price of R28.66 per share. At the group's annual general meeting in October 2018 shareholders granted management the authority to repurchase up to a further 10% of the issued share capital.

Outlook

The change in the affordability assessment regulations of the National Credit Act has enabled self-employed and informally employed individuals to again apply for credit. This is expected to improve the performance of the group's stores in rural areas which have been most affected by these restrictive regulations. While it will take time before many of these individuals re-enter the credit market, sales to this customer category are encouraging and early payment performance is satisfactory.

The current sales momentum is expected to be maintained into the second half, with UFO complementing the performance of the traditional retail brands. UFO is performing well and customers have responded positively to the new ranges introduced in October. The group plans to open a net six stores across all brands in the second half of the year.

Dividend declaration

Notice is hereby given that a gross cash dividend of 105 cents per share in respect of the six months ended 30 September 2018 has been declared payable to holders of ordinary shares. The number of shares in issue as of the date of declaration is 83 010 692. 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 105 cents and the dividend tax payable is 21 cents for shareholders who are not exempt. The net dividend for shareholders who are not exempt will therefore be 84 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.

Commentary continued

The following dates are applicable to this declaration:

Last date of trade *"cum"* dividend	Tuesday, 22 January 2019
Date trading commences *"ex"* dividend	Wednesday, 23 January 2019
Record date	Friday, 25 January 2019
Date of payment	Monday, 28 January 2019

Share certificates may not be dematerialised or rematerialised between Wednesday, 23 January 2019 and Friday, 25 January 2019, both days inclusive.

For and on behalf of the board

Hilton Saven
Independent non-executive Chairman

Johan Enslin
Chief executive officer

Cape Town
21 November 2018

Lewis Group Limited
Income statement

for the six months ended 30 September 2018

	Notes	**6 months ended 30 Sep 2018 Unaudited Rm**	6 months ended 30 Sep 2017 Unaudited Rm	12 months ended 31 Mar 2018 Audited Rm
Revenue	4.1	**2 904.9**	2 658.6	5 556.8
Retail revenue	4.2	**1 973.4**	1 623.7	3 524.2
Merchandise sales	8	**1 630.5**	1 294.8	2 865.0
Ancillary services		**342.9**	328.9	659.2
Insurance revenue		**326.9**	356.4	671.0
Effective interest income		**604.6**	678.5	1 361.6
Finance charges and initiation fees earned		**656.0**	678.5	1 361.6
Credit impairment adjustment		**(51.4)**	–	–
Cost of merchandise sales	8	**(980.0)**	(755.5)	(1 677.8)
Operating costs		**(1 731.1)**	(1 712.0)	(3 499.7)
Debtor costs	3.2	**(300.5)**	(444.3)	(957.3)
Bad debts		**(442.6)**	(407.4)	(958.7)
Movement in impairment provision		**64.5**	(64.9)	(58.9)
Credit impairment adjustment		**51.4**	–	–
Bad debt recoveries		**26.2**	28.0	60.3
Employment costs		**(565.2)**	(513.8)	(1 059.1)
Occupancy costs		**(220.9)**	(183.4)	(373.2)
Administration and IT		**(170.4)**	(164.3)	(328.8)
Transport and travel		**(115.9)**	(99.1)	(205.0)
Marketing		**(161.1)**	(134.0)	(246.6)
Depreciation and amortisation		**(38.4)**	(43.6)	(85.9)
Other operating costs		**(158.7)**	(129.5)	(243.8)
Operating profit before investment income		**193.8**	191.1	379.3
Investment income	5.2	**23.8**	32.8	62.4
Profit before finance costs		**217.6**	223.9	441.7
Net finance costs		**5.6**	(15.7)	(49.2)
Interest paid		**(34.4)**	(37.7)	(87.6)
Interest received		**19.8**	21.3	38.9
Gain/(loss) on forward exchange contracts		**20.2**	0.7	(0.5)
Profit before taxation		**223.2**	208.2	392.5
Taxation	9	**(72.8)**	(65.3)	(128.4)
Net profit attributable to ordinary shareholders		**150.4**	142.9	264.1
Earnings per share (cents)		**181.8**	163.1	306.8
Diluted earnings per share (cents)		**179.0**	162.1	301.3

Lewis Group Limited
Statement of Comprehensive Income

for the six months ended 30 September 2018

	6 months ended 30 Sep 2018 Unaudited Rm	6 months ended 30 Sep 2017 Unaudited Rm	12 months ended 31 Mar 2018 Audited Rm
Net profit for the year	**150.4**	142.9	264.1
Items that may be subsequently reclassified to income statement:			
Movement in other reserves	**(7.4)**	6.0	9.9
Fair value adjustment to FVOCI/available-for-sale investments	**(22.8)**	4.6	22.8
Disposal of FVOCI/available-for-sale investments	**0.3**	(0.8)	(1.3)
Foreign currency translation reserve	**15.1**	2.2	(11.6)
Items that may not be subsequently reclassified to income statement:			
Retirement benefit remeasurements	**–**	–	42.6
Other comprehensive income	**(7.4)**	6.0	52.5
Total comprehensive income for the year attributable to equity shareholders	**143.0**	148.9	316.6

Lewis Group Limited
Earnings and Dividends per Share

for the six months ended 30 September 2018

		6 months ended 30 Sep 2018 Unaudited	6 months ended 30 Sep 2017 Unaudited	12 months ended 31 Mar 2018 Audited
Weighted average number of shares				
Weighted average	('000)	**82 744**	87 613	86 073
Diluted weighted average	('000)	**84 032**	88 167	87 670
Headline earnings				
Attributable earnings	(Rm)	**150.4**	142.9	264.1
Disposal of fixed assets	(Rm)	**(0.8)**	1.0	(2.4)
Profit on disposal of available-for-sale investments	(Rm)	**–**	(0.8)	(1.2)
Headline earnings		**149.6**	143.1	260.5
Earnings per share				
Earnings per share	(cents)	**181.8**	163.1	306.8
Diluted earnings per share	(cents)	**179.0**	162.1	301.3
Headline earnings per share				
Headline earnings per share	(cents)	**180.8**	163.3	302.6
Diluted headline earnings per share	(cents)	**178.0**	162.2	297.1
Dividends per share				
Dividends paid per share				
Final dividend 2018 (2017)	(cents)	**100.0**	100.0	100.0
Interim dividend 2019 (2018)	(cents)	**–**	–	100.0
		100.0	100.0	200.0
Dividends declared per share				
Interim dividend 2019 (2018)	(cents)	**105.0**	100.0	100.0
Final dividend 2018 (2017)	(cents)	**–**	–	100.0
		105.0	100.0	200.0

Lewis Group Limited
Balance sheet

for the six months ended 30 September 2018

	Notes	6 months ended 30 Sep 2018 Unaudited Rm	6 months ended 30 Sep 2017 Unaudited Rm	12 months ended 31 Mar 2018 Audited Rm
Assets				
Non-current assets				
Property, plant and equipment		**304.2**	319.7	301.8
Trademarks		**115.9**	64.4	117.8
Goodwill		**187.6**	5.5	187.6
Deferred taxation		**156.6**	26.4	10.9
Retirement benefit asset		**91.1**	55.0	91.1
Financial assets – insurance investments	5.1	**442.9**	456.3	471.0
		1 298.3	927.3	1 180.2
Current assets				
Inventories		**750.5**	523.3	579.7
Trade and other receivables	4.1	**3 347.3**	4 341.4	4 200.0
Reinsurance assets	5.3	**–**	97.6	–
Insurance premiums in advance		**17.4**	200.3	75.6
Taxation		**171.2**	166.0	136.5
Financial assets – insurance investments	5.1	**133.6**	244.3	135.4
Cash-on-hand and deposits		**543.4**	684.2	608.4
		4 963.4	6 257.1	5 735.6
Total assets		**6 261.7**	7 184.4	6 915.8
Equity and liabilities				
Capital and reserves				
Share capital and premium		**0.9**	494.3	425.0
Treasury shares		**(0.5)**	(480.2)	(480.2)
Other reserves		**32.3**	20.0	42.6
Retained earnings		**4 805.0**	5 381.4	5 461.1
		4 837.7	5 415.5	5 448.5
Non-current liabilities				
Long-term interest-bearing borrowings	6	**–**	600.0	–
Deferred taxation		**34.1**	79.6	121.0
Retirement benefit liability		**92.6**	106.8	89.8
		126.7	786.4	210.8
Current liabilities				
Trade and other payables		**512.7**	410.9	379.2
Payments in advance		**161.0**	137.7	168.9
Insurance and reinsurance liabilities	5.4	**121.7**	399.1	176.8
Short-term interest-bearing borrowings	6	**501.9**	34.8	531.6
		1 297.3	982.5	1 256.5
Total equity and liabilities		**6 261.7**	7 184.4	6 915.8

Lewis Group Limited
Statement of Changes in Equity

for the six months ended 30 September 2018

	6 months ended 30 Sep 2018 Unaudited Rm	6 months ended 30 Sep 2017 Unaudited Rm	12 months ended 31 Mar 2018 Audited Rm
Share capital and premium			
Opening balance	**425.0**	588.5	588.5
Cost of own shares acquired	**(51.5)**	(94.2)	(163.5)
Treasury shares cancelled	**(477.7)**	–	–
Excess cost of cancelled shares	**105.1**	–	–
	0.9	494.3	425.0
Treasury shares			
Opening balance	**(480.2)**	(480.2)	(480.2)
Cost of own shares acquired	**(6.1)**	–	–
Treasury shares cancelled	**477.7**	–	–
Share awards to employees	**8.1**	–	–
	(0.5)	(480.2)	(480.2)
Other reserves			
Opening balance	**42.6**	6.2	6.2
Other comprehensive income for the year			
Fair value adjustments of available-for-sale investments	**(22.8)**	4.6	22.8
Disposal of available-for-sale investments recognised	**0.3**	(0.8)	(1.3)
Foreign currency translation reserve	**15.1**	2.2	(11.6)
Share-based payment	**17.4**	7.8	26.5
Transfer of share-based payment reserve to retained earnings on vesting	**(20.3)**	–	–
	32.3	20.0	42.6

Lewis Group Limited
Statement of Changes in Equity continued

for the six months ended 30 September 2018

	6 months ended 30 Sep 2018 Unaudited Rm	6 months ended 30 Sep 2017 Unaudited Rm	12 months ended 31 Mar 2018 Audited Rm
Retained earnings			
Opening balance	**5 461.1**	5 325.9	5 325.9
Net profit attributable to ordinary shareholders	**150.4**	142.9	264.1
IFRS 9 Transitional adjustments	**(604.8)**	–	–
Decrease in trade receivables:			
Gross carrying value	**(39.3)**	–	–
Impairment provision	**(802.6)**	–	–
Deferred tax	**237.1**	–	–
IFRS 15 Transitional adjustments	**(26.0)**	–	–
Gross	**(36.1)**	–	–
Deferred tax	**10.1**	–	–
Distribution to shareholders	**(82.8)**	(87.4)	(171.5)
Excess cost of cancelled shares	**(105.1)**	–	–
Share awards to employees	**(8.1)**	–	–
Transfer of share-based payment reserve to retained earnings on vesting	**20.3**	–	–
Retirement benefit remeasurements	**–**	–	42.6
	4 805.0	5 381.4	5 461.1
Balance as at the end of period	**4 837.7**	5 415.5	5 448.5

Lewis Group Limited
Cash Flow Statement

for the six months ended 30 September 2018

	Notes	**6 months ended 30 Sep 2018 Unaudited Rm**	6 months ended 30 Sep 2017 Unaudited Rm	12 months ended 31 Mar 2018 Audited Rm
Cash flow from operating activities				
Cash flow from trading		**195.5**	285.7	606.3
Operating profit before investment income		**193.8**	191.1	379.3
Adjusted for:				
Share-based payments		**17.4**	7.8	26.5
Depreciation and amortisation		**38.4**	43.6	85.9
Movement in debtors impairment provision		**(64.5)**	64.9	58.9
Movement in other provisions		**8.8**	(28.1)	47.8
Other movements		**1.6**	6.4	7.9
Changes in working capital:		**20.0**	89.4	101.9
Increase in inventories		**(160.7)**	(88.4)	(27.3)
Decrease/(increase) in trade and other receivables		**37.8**	(34.4)	66.8
Increase/(decrease) in trade payables		**147.7**	180.6	(0.4)
Payments in advance		**(7.9)**	(6.2)	25.0
Decrease in insurance premiums in advance		**58.2**	202.9	327.6
Decrease in reinsurance asset		**–**	54.6	152.2
Decrease in reinsurance and insurance liabilities		**(55.1)**	(219.7)	(442.0)
Cash generated from operations		**215.5**	375.1	708.2
Interest received		**44.0**	54.1	99.5
Interest paid		**(14.2)**	(37.0)	(88.1)
Taxation paid		**(84.2)**	(38.6)	(58.5)
		161.1	353.6	661.1
Cash utilised in investing activities				
Net disposals of insurance business investments		**(1.8)**	55.4	176.0
Purchase of insurance investments		**(63.1)**	(22.5)	(81.5)
Disposals of insurance investments		**61.3**	77.9	257.5
Acquisition of property, plant and equipment		**(38.9)**	(20.8)	(44.4)
Purchase of businesses	11.	**(16.5)**	–	(234.6)
Proceeds on disposal of property, plant and equipment		**1.2**	1.5	12.4
		(56.0)	36.1	(90.6)
Cash flow from financing activities				
Dividends paid		**(82.8)**	(87.4)	(171.5)
Repayments of borrowings		**(0.9)**	(347.3)	(422.2)
Purchase of own shares		**(57.6)**	(94.2)	(163.5)
		(141.3)	(528.9)	(757.2)
Net decrease in cash and cash equivalents		**(36.2)**	(139.2)	(186.7)
Cash and cash equivalents at the beginning of the year		**579.6**	788.6	766.3
Cash and cash equivalents at the end of the year		**543.4**	649.4	579.6

Lewis Group Limited
Notes to the financial statements

for the six months ended 30 September 2018

1. Basis of reporting

The condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards, (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. The accounting policies applied in the preparation of these interim financial statements are in terms of International Financial Reporting Standards and are consistent with those applied in the previous consolidated annual financial statements except as disclosed in note 2.

The interim financial statements were prepared by the group's Finance Department under the supervision of the Chief Financial Officer, Mr J Bestbier CA(SA).

2. Changes in accounting policies

2.1 Adoption of IFRS 9

The group has adopted IFRS 9 with effect from 1 April 2018. The group has elected not to restate its comparative information as permitted by IFRS 9. Accordingly, the impact of IFRS 9 has been applied retrospectively with an adjustment to the group's opening retained earnings on 1 April 2018. Therefore comparative information in the prior period annual financial statements has not been amended for the impact of IFRS 9.

The major changes in accounting policies arising from the adoption of IFRS 9 can be summarised as follows:

- the impairment of financial assets has been significantly amended by IFRS 9. The main impact being that IFRS 9 introduces an expected credit loss model when assessing the impairment of financial assets. The group has elected to use the simplified model for trade receivables while the general model applies to all other assets.
- the classification of financial instruments from IAS 39 to IFRS 9 categories. This has had no impact in the opening earnings of the group or the carrying values of the financial instruments.

The adjustment to opening retained earnings for the transition to the expected credit loss model (impairment of trade receivables) as at 1 April 2018 is as follows:

	Rm
Decrease in trade receivables	**(841.9)**
Attributable deferred tax	**237.1**
Decrease in retained income as at 1 April 2018	**(604.8)**

For full details of the adoption of IFRS 9, refer to the IFRS 9 Implementation Report included in these unaudited financial results for the six months ended 30 September 2018.

2. Changes in accounting policies continued

2.1 Adoption of IFRS 9 continued

Interest income

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

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

2.2 Adoption of IFRS 15

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

The effect of the adoption of IFRS 15 as at 1 April 2018 is reflected in Section 5 of the IFRS 9 Implementation Report.

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

Cancelled sales

It is policy to sell goods with the right of return in terms of current consumer legislation. Such sales are cancelled where the right of return is exercised. Under IFRS 15, a refund liability for the expected refunds is recognised as an adjustment to revenue, trade receivables and trade payables. The corresponding right to recover the product from the customer is an adjustment to cost of sales and inventory. The accumulated experience of the portfolio has been utilised to estimate such returns at the time of sale.

The adjustment to opening retained earnings as at 1 April 2018 is as follows:

	Rm
Gross amount	**(36.1)**
Reduction in trade receivables	**(52.7)**
Increase in accounts payable	**(9.9)**
Increase in inventory	**26.5**
Attributable deferred tax	**10.1**
Decrease in retained earnings	**(26.0)**

2.3 Segmental report

The group's accounting policy states that the group's reportable segments are based on the chains that it operates and that these segments reflect how the group's businesses are managed and reported to the chief operating decision-makers. With the acquired businesses and the development of new business ventures, the reportable segments have changed to reflect the new strategic direction of the group.

Lewis Group Limited
Notes to the financial statements

for the six months ended 30 September 2018

2. Changes in accounting policies continued

2.3 Segmental report continued

The reportable segments are as follows:

- traditional business which consists of credit-focused brands of Lewis, Best Home and Electric and Beares.
- cash business, being the newly acquired UFO business
- Omni-Channel business being newly launched INspire

In accordance with IFRS 8, the comparatives have been prepared as if these reportable segments were in place in the prior periods.

2.4 Share capital

The group's accounting policy regarding share capital needs to be clarified in that where shares are cancelled, the consideration paid including the cost attributable to the acquisition will be applied to the share premium account and once the share premium account is fully utilised, then the excess will be allocated to retained earnings.

2.5 Reclassification

The following reclassifications were made:

Where customers have settled their accounts or where customers have paid in advance of Lewis performing under the maintenance contract, there was a remaining period under the said maintenance contract for which Lewis still had to provide a service. The gross carrying value of trade receivables was reduced to the extent of the remaining unearned maintenance income. This has now been reclassified to payments in advance and disclosed separately under current liabilities.

Where customers have paid in advance for goods still to be delivered under the sales contract, this was previously included in trade and other payables. This has been reclassified as payments in advance.

The reclassifications have the following impact on trade receivables, trade and other payables and payments in advance for the six months ended 30 September 2017 and the year ended 31 March 2018:

	September 2017 Restated	September 2017 Effect of change	September 2017 Previously restated	**March 2018 Restated**	**March 2018 Effect of change**	**March 2018 Previously restated**
Trade receivables	4 341.4	137.7	4 203.7	**4 200.0**	**131.1**	**4 068.9**
Trade payables	–	–	–	**379.2**	**(37.8)**	**417.0**
Payments in advance	137.7	137.7	–	**168.9**	**168.9**	**–**

2. Changes in accounting policies continued

2.6 Restatement of September 2017 financial results

In the financial statements for the year ended 31 March 2018, the group reconsidered its accounting treatment with respect to the treatment of advertising rebates. As a result of reconsidering the accounting policy, the group concluded that it previously incorrectly classified these rebates , net of advertising expenses and changed the group's accounting policy for inventory. The change in the inventory policy was implemented in the results for the year ended 31 March 2018, but not for the six months ended 30 September 2017. Accordingly, the reclassification referred to needs to be accounted for in the financial results for the six months ended 30 September 2017:

		2017 Effect of change Rm
Impact on balance sheet		
Inventories		7.5
Retained earnings		5.4
Deferred tax liabilities		2.1
Impact on income statement		
Cost of sales		(10.3)
Other operating expenses – marketing		(11.0)
Attributable profit for the year		(0.5)
Basic earnings per share	(cents)	(0.6)
Diluted earnings per share	(cents)	(0.5)
Basic headline earnings per share	(cents)	(0.6)
Diluted headline earnings per share	(cents)	(0.7)
Impact on statement of cash flows		
Cash flow from trading		(0.6)
Changes in working capital		0.6
Net movement in cash and cash equivalents		–

Lewis Group Limited
Notes to the financial statements

for the six months ended 30 September 2018

			6 months ended 30 Sept 2018 Unaudited Rm	6 months ended 30 Sept 2017 Unaudited Rm	12 months ended 31 March 2018 Audited Rm
3.	**Trade and other receivables**				
3.1	**Trade receivables**				
	Trade receivables at carrying value		**5 420.7**	5 717.9	5 608.7
	Provision for impairment		**(2 357.6)**	(1 625.5)	(1 619.5)
			3 063.1	4 092.4	3 989.2
	Other receivables		**284.2**	249.0	210.8
			3 347.3	4 341.4	4 200.0
	Debtors' impairment provision as percentage of net debtors	(%)	**43.5**	28.4	28.9

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.

Credit risk of trade receivables

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

3. Trade and other receivables continued

3.1 Trade receivables continued

Credit granting

The group has developed advanced credit-granting systems to properly assess the customer. The credit underwriting process flows through the following stages:

- **Credit scoring:** this involves the gathering of appropriate information from the client, use of credit bureaus and third parties such as employers. These input variables are run through the various credit scorecards. Lewis deals with its new customers and existing customers differently when credit scoring takes place.

  The process differs as follows:

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

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

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

3. Trade and other receivables continued

3.1 Trade receivables continued

Impairment provision

The customers payment profile is managed by using payment ratings. Payment ratings are determined on an individual customer level and aggregated over all the customer's sub-accounts. Payment ratings measure the 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.

In accordance with IFRS 9, the group has elected to measure the impairment allowance equal to the lifetime expected credit losses ("ECL"). The lifetime ECL is calculated by determining cash flows on a probability weighted basis and discounting these at the effective interest rate in the contract, including initiation fees. The discounted cash flow is compared to the balance owing at point of assessment to determine the ECL.

The probability weighted cash flows are calculated using the debtor book population's payment behaviour in combination with a transition matrix. The transition matrix and payment performance for each payment state has been developed utilising customer payment history. The transition matrix predicts the population's payment behaviour and probability of the account being in a particular payment state and transitioning into future payment states. The key states in the transitional matrix are the customer's lifetime payment rating, time on book and contractual term. For modelling purposes, cash flows are forecast until the account is written off or settled.

The impairment provision applicable to the payment rating and the trending thereof, is correlated with collection rates and customer payment data produced by the credit risk information systems. The level of the impairment provision in terms of IFRS 9 will be monitored in a similar manner to that of the impairment provision under IAS 39.

Contractual arrears

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

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

3. Trade and other receivables continued

3.1 Trade receivables continued

Combined impairment and contractual arrears table

The table below reflects the following:

- A summary of the main groupings of payment ratings describing payment behaviour.
- For each of the main payment ratings the, following is disclosed:
  - Number of customers.
  - Gross receivables or gross carrying value
  - Impairment provision allocated to each grouping.
  - Contractual arrears for each grouping have been categorised by number of instalments in arrears.

The table referred to above is set out below

Gross debtor analysis
30 September 2018 (IFRS 9)

Customer grouping	Total number of customers	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.	408 005	3 103 155	666 767	21.5	530 205	148 582	102 629	75 903	203 091
	69.9%	57.2%	28.3%		24.3%				
Slow payers Customers who have paid 55% to 70% of amounts due over the contract period.	91 370	958 938	571 465	59.6	633 196	67 912	64 902	61 756	438 626
	15.6%	17.7%	24.2%		29.1%				
Non-performing accounts Customers who have paid less than 55% of amounts due over the contract period.	84 568	1 358 540	1 119 257	82.4	1 013 893	65 006	64 349	63 654	820 884
	14.5%	25.1%	47.5%		46.6%				
Gross debtor analysis	583 943	5 420 633	2 357 489	43.5	2 177 294	281 500	231 880	201 313	1 462 601

Credit impaired debtors as at 30 September 2018

Credit impaired categories	Non-performing accounts	In duplum	Debt counselling	No payment in three consecutive months	Total
Gross carrying value as at 30 September 2018	1 358 540	43 595	110 129	223 693	1 735 957
Impairment provision	(1 119 257)	(29 137)	(52 573)	(108 254)	(1 309 221)
Amortised cost	239 283	14 458	57 556	115 439	426 736

3. Trade and other receivables continued

3.1 Trade receivables continued

30 September 2017 (IAS 39)

Customer grouping	Total number of customers	Gross receivables R'000	Impairment provision R'000	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. The provision in this category results from in duplum provision.	409 445	3 505 117	20 437	561 863	153 413	107 496	80 698	220 306
	67.7%	56.8%	1.3%					
Slow payers Customers who have paid 65% to 70% of amounts due over the contract period. The provision in this category for the current period ranges from 13% to 68% (Sept 2016: 14% to 66%) of amounts due.	52 312	529 855	195 250	324 376	37 633	36 471	34 665	215 607
	8.6%	8.6%	12.0%					
Non-performing accounts Customers who have paid between 55% and 65% of amounts due over the contract period. The provision in this category for the current period ranges from 23% to 79% (Sept 2016: 24% to 78%) of amounts due.	45 632	557 807	248 575	359 018	33 350	31 744	30 622	263 301
	7.5%	9.0%	15.3%					
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 34% to 100% (Sept 2016: 33% to 100%) of amounts due.	97 792	1 581 455	1 161 281	1 107 033	71 012	69 576	68 415	898 031
	16.2%	25.6%	71.4%					
Gross debtor analysis	605 181	6 174 234	1 625 543	2 352 290	295 408	245 286	214 350	1 597 245
Unearned provision		(456 294)	28.4%					
Gross carrying value		5 717 940						

3. Trade and other receivables continued

3.1 Trade receivables continued

April 2018 (Transition to IFRS 9)

Customer grouping	Total number of customers	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.	401 183	3 034 888	675 971	22.3	549 506	155 673	105 593	77 633	210 607
	68.4%	55.0%	27.9%		24.1%				
Slow payers Customers who have paid 55% to 70% of amounts due over the contract period.	97 251	1 039 846	608 716	58.5	665 893	72 167	69 010	64 474	460 242
	16.5%	18.9%	25.1%		29.2%				
Non-performing accounts Customers who have paid less than 55% of amounts due over the contract period.	88 430	1 441 893	1 137 347	78.9	1 062 130	67 452	66 131	64 513	864 034
	15.1%	26.1%	47.0%		46.6%				
Gross debtor analysis	586 864	5 516 627	2 422 034	43.9	2 277 529	295 292	240 734	206 620	1 534 883

Credit impaired debtors as at 1 April 2018

Credit impaired categories	Non-performing accounts	In duplum	Debt counselling	No payment in three consecutive months	Total
Gross carrying value as at 1 April 2018	1 441 893	31 622	107 572	135 776	1 716 863
Impairment provision	(1 137 347)	(19 525)	(54 342)	(59 360)	(1 270 574)
Amortised cost	304 546	12 097	53 230	76 416	446 289

3. Trade and other receivables continued

3.1 Trade receivables continued

31 March 2018 (IAS 39)

Customer grouping	Total number of customers	Gross receivables R'000	Impairment provision R'000	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. The provision in this category results from in duplum provision.	401 183	3 521 017	18 039	549 506	155 673	105 593	77 633	210 607
	68.4%	57.9%	1.1%					
Slow payers Customers 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 67% (2017: 13% to 72%) of amounts due.	51 311	522 578	196 021	308 975	37 594	36 230	33 546	201 605
	8.7%	8.6%	12.1%					
Non-performing accounts Customers who have paid between 55% and 65% of amounts due over the contract period. The provision in this category for the current period ranges from 25% to 79% (2017: 24% to 86%) of amounts due.	45 940	563 339	262 519	356 918	34 573	32 780	30 928	258 637
	7.8%	9.3%	16.2%					
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 35% to 100% (2017: 35% to 100%) of amounts due.	88 430	1 471 294	1 142 920	1 062 130	67 452	66 131	64 513	864 034
	15.1%	24.2%	70.6%					
Gross debtor analysis	586 864	6 078 228	1 619 499	2 277 529	295 292	240 734	206 620	1 534 883
Unearned provision		(469 549)	28.9%					
Gross carrying value		5 608 678						

3. Trade and other receivables continued

3.1 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 trade receivables is 22.7% (2017: 22.6%) and the average term of the sale is 32.7 months (2017: 32.9 months).

Fair value

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

		6 months ended 30 Sept 2018 Unaudited Rm	6 months ended 30 Sept 2017 Unaudited Rm	12 months ended 31 March 2018 Audited Rm
3.2 Debtor costs				
Bad debts		**442.6**	407.4	959.4
Credit impairment adjustment		**(51.4)**	–	–
Bad debt recoveries		**(26.2)**	(28.0)	(61.0)
Movement in debtors' impairment provision		**(64.5)**	64.9	58.9
Closing balance		**2 357.6**	1 625.5	1 619.5
Transition to IFRS 9		**(802.6)**	–	–
Opening balance		**(1 619.5)**	(1 560.6)	(1 560.6)
		300.5	444.3	957.3
Debtor costs as a percentage of trade receivables	(%)	**5.5**	7.8	17.1

Lewis Group Limited
Notes to the financial statements

for the six months ended 30 September 2018

		6 months ended 30 Sept 2018 Unaudited Rm	6 months ended 30 Sept 2017 Unaudited Rm	12 months ended 31 March 2018 Audited Rm
4	**Revenue**			
4.1	**Revenue**	**2 904.9**	2 658.6	5 556.8
	Retail revenue	**1 973.4**	1 623.7	3 524.2
	Merchandise sales	**1 630.5**	1 294.8	2 865.0
	Ancillary services	**342.9**	328.9	659.2
	Insurance revenue	**326.9**	356.4	671.0
	Effective interest income	**604.6**	678.5	1 361.6
	Finance charges and initiation fees earned	**656.0**	678.5	1 361.6
	Credit impairment adjustment	**(51.4)**	–	–
4.2	**Retail revenue**			
	Traditional	**1 734.8**	1 623.7	3 458.2
	Cash retail	**234.4**	–	66.0
	Omni-Channel	**4.2**	–	–
		1 973.4	1 623.7	3 524.2

	6 months ended 30 Sept 2018 Unaudited Rm	6 months ended 30 Sept 2017 Unaudited Rm	12 months ended 31 March 2018 Audited Rm

5. Insurance

5.1 Insurance investments

	6 months ended 30 Sept 2018 Unaudited Rm	6 months ended 30 Sept 2017 Unaudited Rm	12 months ended 31 March 2018 Audited Rm
Financial assets – insurance investments			
Listed investments			
Fixed income securities – FVOCI/available-for-sale	**442.9**	456.3	471.0
Unlisted Investments			
Money market – FVOCI/available-for-sale	**133.6**	244.3	135.4
	576.5	700.6	606.4
Analysed as follows:			
Non-current	**442.9**	456.3	471.0
Current	**133.6**	244.3	135.4
	576.5	700.6	606.4
Movement for the year			
Beginning of the year	**606.4**	750.8	750.8
Additions to investments	**63.1**	22.5	81.5
Disposals of investments	**(61.7)**	(77.9)	(255.7)
Fair value adjustment	**(31.3)**	5.2	29.8
End of the year	**576.5**	700.6	606.4

Lewis Group Limited
Notes to the financial statements

for the six months ended 30 September 2018

5. Insurance continued

5.1 Insurance investments continued

Fair value hierarchy

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

	Level 2 Rm	Total Rm
30 September 2018		
Insurance investments:		
Fixed income securities – FVOCI	**442.9**	**442.9**
Money market – FVOCI	**133.6**	**133.6**
	576.5	**576.5**
30 September 2017		
Insurance investments:		
Fixed income securities – Available-for-sale	456.3	456.3
Money market – Available-for-sale	244.3	244.3
	700.6	700.6
31 March 2018		
Insurance investments:		
Fixed income securities – Available-for-sale	471.0	471.0
Money market – Available-for-sale	135.4	135.4
	606.4	606.4

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

		6 months ended 30 Sept 2018 Unaudited Rm	6 months ended 30 Sept 2017 Unaudited Rm	12 months ended 31 March 2018 Audited Rm
5.2	**Investment income**			
	Interest – insurance business	**24.2**	31.7	60.7
	Realised (loss)/gain on disposal of insurance investments	**(0.4)**	1.1	1.7
		23.8	32.8	62.4
5.3	**Reinsurance assets**			
	Reinsurer's share of unearned premiums	**–**	67.5	–
	Opening balance	**–**	123.8	123.8
	Recognised in income statement	**–**	(56.3)	(100.6)
	Cessation of reinsurance	**–**	–	(23.2)
	Reinsurer's share of insurance provisions	**–**	30.1	–
	Opening balance	**–**	28.4	28.4
	Recognised in income statement	**–**	1.7	(13.5)
	Cessation of reinsurance	**–**	–	(14.9)
	Total reinsurance assets	**–**	97.6	–
5.4	**Insurance and reinsurance liabilities**			
	Unearned premiums	**77.0**	243.5	133.2
	Opening balance	**133.2**	412.1	412.1
	Recognised in income statement	**(56.2)**	(168.6)	(278.9)
	Due to reinsurers	**–**	0.8	0.9
	Other insurance and reinsurance liabilities	**44.7**	154.8	42.7
	Opening balance	**42.7**	206.4	206.4
	Recognised in income statement	**2.0**	(51.6)	(125.6)
	Cessation of reinsurance	**–**	–	(38.1)
	Total insurance and reinsurance liabilities	**121.7**	399.1	176.8

Lewis Group Limited
Notes to the financial statements

for the six months ended 30 September 2018

6. Borrowings, banking facilities and cash

	6 months ended 30 Sept 2018 Unaudited Rm	6 months ended 30 Sept 2017 Unaudited Rm	12 months ended 31 March 2018 Audited Rm
Interest-bearing borrowings			
Long-term			
Banking facilities	**–**	600.0	–
	–	600.0	–
Short-term			
Banking facilities and bond	**501.9**	–	502.8
Bank overdrafts	**–**	34.8	28.8
	501.9	34.8	531.6
Cash and cash equivalents			
Cash on hand	**(543.4)**	(684.2)	(608.4)
Net borrowings	**(41.5)**	(49.4)	(76.8)
Unutilised facilities			
Banking facilities	**2 191.5**	2 199.4	1 618.4
Domestic Medium Term Note Programme	**2 000.0**	2 000.0	2 000.0
	4 191.5	4 199.4	3 618.4
Available facilities	**4 150.0**	4 150.0	3 541.6
Interest rate profile			
Interest rate profile of borrowings is as follows:			
Bank borrowings at interest rates linked to three month JIBAR. The weighted average interest rate at the end of the reporting period is 9.32% (2017: 9.28%)	**501.9**	600.0	502.8
Capital management			
Net borrowings	**(41.5)**	(49.4)	(76.8)
Shareholder's equity	**4 837.7**	5 415.5	5 448.5
Gearing ratio (%)	**(0.9)**	(0.9)	(1.4)

7. Reportable segments

Primary	Traditional Rm	Cash retail Rm	Omnichannel Rm	Group Rm
For the six months ended 30 September 2018 (Unaudited)				
Revenue	**2 666.3**	**234.4**	**4.2**	**2 904.9**
Operating profit before investment income	**186.8**	**21.6**	**(14.6)**	**193.8**
Operating margin (%)	**7.0**	**9.2**	**(347.6)**	**6.7**
Segment assets	**3 690.9**	**93.2**	**24.7**	**3 808.8**
For the six months ended 30 September 2017 (Unaudited)				
Revenue	2 658.6	–	–	2 658.6
Operating profit before investment income	191.1	–	–	191.1
Operating margin (%)	7.2	–	–	7.2
Segment assets	4 478.7	–	–	4 478.7
For the twelve months ended 31 March 2018 (Audited)				
Revenue	5 490.8	66.0	–	5 556.8
Operating profit before investment income	383.5	(4.2)	–	379.3
Operating margin (%)	7.0	(6.4)	–	6.8
Segment assets	4 327.9	110.0	–	4 437.9

Geographical	South Africa Rm	Namibia Rm	BLS* Rm	Group Rm
For the six months ended 30 September 2018 (Unaudited)				
Revenue	**2 425.9**	**246.7**	**232.3**	**2 904.9**
For the six months ended 30 September 2017 (Unaudited)				
Revenue	2 159.3	258.6	240.7	2 658.6
For the twelve months ended 31 March 2018 (Audited)				
Revenue	4 551.2	497.6	508.0	5 556.8

** Botswana, Lesotho and Swaziland*

Lewis Group Limited
Notes to the financial statements

for the six months ended 30 September 2018

		6 months ended 30 Sept 2018 Unaudited Rm	6 months ended 30 Sept 2017 Unaudited Rm	12 months ended 31 March 2018 Audited Rm
8. Gross profit				
Merchandise sales		**1 630.5**	1 294.8	2 865.0
Cost of merchandise sales		**(980.0)**	(755.5)	(1 677.8)
Merchandise gross profit		**650.5**	539.3	1 187.2
Gross profit percentage	(%)	**39.9**	41.7	41.4
9. Taxation				
Taxation charge				
Normal taxation				
Current year		**51.8**	53.8	93.5
Prior year		**(2.3)**	–	(0.6)
Deferred taxation				
Current year		**16.0**	11.5	29.8
Prior year		**7.3**	–	(6.8)
Withholding tax		**–**	–	12.5
Taxation per income statement		**72.8**	65.3	128.4
Tax rate reconciliation				
Profit before taxation		**223.2**	208.2	392.5
Taxation calculated at a tax rate of 28% (2017: 28%)		**62.5**	58.3	109.9
Differing tax rates in foreign countries		**1.7**	3.5	4.5
Disallowances		**9.6**	3.5	22.8
Exemptions		**(6.0)**	–	(13.9)
Prior years		**5.0**	–	(7.4)
Withholding tax		**–**	–	12.5
Taxation per income statement		**72.8**	65.3	128.4
Effective tax rate	(%)	**32.6**	31.4	32.7

10. Regulatory matters

10.1 Pending matters

The group has the following pending matters:

- **Referrals by National Credit Regulator to the National Consumer Tribunal ("NCT")**
  Second referral (April 2016): relating to club fees and extended maintenance contracts charged to customers.
- **High Court summonses (February/April 2016)**
  These were summonses issued at the direction of Summit Financial Partners by 28 plaintiffs, being existing or previous customers of Lewis, relating to delivery charges and extended maintenance contracts.
- **Homechoice Application (September 2018)**
  Homechoice's application launched in the Western Cape High Court relates to Lewis' INspire business and certain intellectual property rights which Homechoice alleges Lewis has breached.
- **Referral by Summit Financial Partners ("Summit") to the National Consumer Tribunal ("NCT")**
  In December 2017, Summit sought leave to self-refer a complaint to the NCT regarding the delivery fees charged by Lewis subsequent to NCR, after investigation, declining to refer the matter to the NCT.

10.2 Progress

The following progress has been made on the pending matters in the 6 months ended 30 September 2018:

- **Second Referral:** On 30 April 2018, the High Court handed down judgement in Lewis' favour with regard to the appeal by the NCR. The matter was dismissed with costs against the NCR. The NCR has appealed the High Court's judgement, and its appeal to the Supreme Court of Appeal will be heard in due course.
- **High Court summonses:** On 4 August 2017, the plaintiffs' application for leave to amend the particulars of their claim was dismissed with a cost order being granted in favour of Lewis. The plaintiffs have again sought to amend the particulars of their claim and Lewis has objected thereto. The plaintiffs' second application for leave to amend will be heard on 29 November 2018.
- **Homechoice Application:** Lewis has filed a notice to oppose Homechoice's application, and has also launched its own application against Homechoice related to a number of irregularities in the documentation of Homechoice's application. Lewis' application will be heard in the Western Cape High Court in February 2019.

Lewis Group Limited
Notes to the financial statements

for the six months ended 30 September 2018

	6 months ended 30 Sept 2018 Unaudited Rm	6 months ended 30 Sept 2017 Unaudited Rm	12 months ended 31 March 2018 Audited Rm
11. Purchase of businesses			
Trademarks	**–**	–	55.7
Goodwill	**–**	–	182.4
Property, plant and equipment	**–**	–	4.9
Inventory	**–**	–	116.4
Trade receivables	**–**	–	–
Other receivables	**–**	–	5.4
Cash and cash equivalents	**–**	–	73.0
Short term borrowings	**–**	–	(0.3)
Taxation	**–**	–	(8.2)
Trade and other payables	**–**	–	(93.5)
Deferred tax	**–**	–	(11.7)
Total consideration	**–**	–	324.1
Outflow of cash to acquire subsidiary, net of cash acquired			
Cash consideration	**–**	–	324.1
Less: Cash balances acquired	**–**	–	(73.0)
Less: Deferred purchase consideration	**16.5**	–	(16.5)
Net outflow of cash – investing activities	**16.5**	–	234.6

Purchase of United Furniture Outlets (2018)

On 1 February 2018, Lewis Stores Proprietary Limited (“Lewis Stores”), a wholly-owned subsidiary of the group, obtained control of United Furniture Outlets Proprietary Limited (“UFO”), a cash furniture retailer, by acquiring 100% of the issued ordinary share capital and voting rights and all shareholders´ claims against UFO from the shareholders.

UFO is an independent, cash furniture retailer. It sells a variety of furniture including lounge, bedroom and dining room products. UFO is recognised as a luxury brand with a value offering to the upper consumer spectrum, namely LSM 9-10+. The business was established in 2004 and currently more than half of its stores are located in Gauteng.

The total acquisition consideration was a cash amount of R324.1 million.

12. New Standards and Interpretations not yet effective

12.1 IFRS 16

IFRS 16 (Leases) replaces IAS 17 with effect from the year ending 31 March 2020. IFRS 16 will result in most leases being recognised in the statement of financial position, as the distinction between operating and finance leases has been removed. Under the new standard, an asset representing the right to use the leased item and a financial liability, to pay rentals, will be recognised. The only exceptions are short-term and low-value leases.

The new standard will primarily affect the accounting for operating leases relating to retail stores. As at the reporting date the group has non-cancellable operating lease commitments of R555.1 million. The group has not yet determined the extent of the right of use asset nor the liability for future payments and how this will affect profit and classification of cash flows.

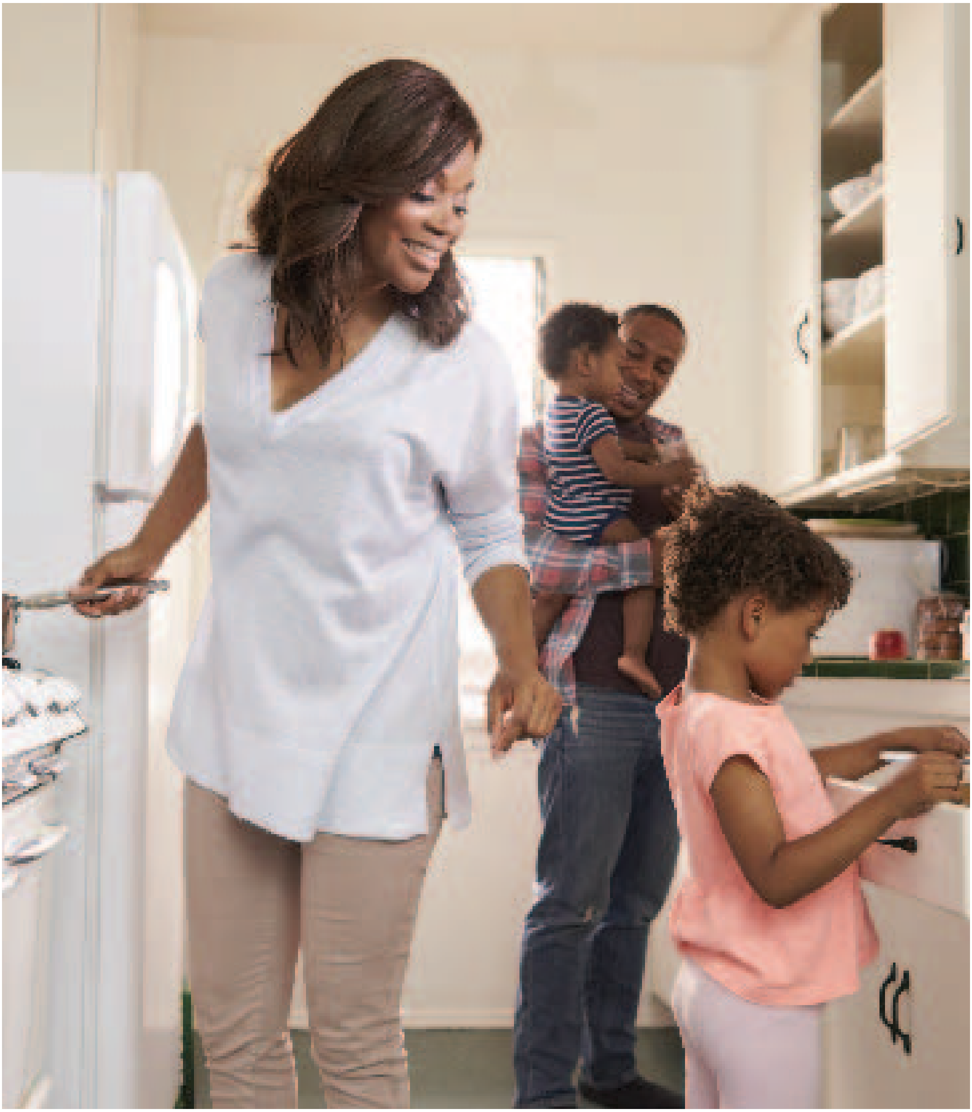
12.2 IFRS 17

IFRS 17 which replaces IFRS 4, applies to insurance contracts and reinsurance contracts. The standard will apply to the group for the year ending 31 March 2022. Management has not yet performed an assessment of the potential impact of the implementation of this new standard.

Lewis Group Limited
Key ratios

		6 months ended 30 Sept 2018 Unaudited Rm	6 months ended 30 Sept 2017 Unaudited Rm	12 months ended 31 March 2018 Audited Rm
Operating efficiency ratios				
Gross profit margin	(%)	**39.9**	41.6	41.4
Operating profit margin	(%)	**6.7**	7.2	6.8
Number of stores at period-end		**779**	744	773
Number of employees	(average)	**8 039**	8 180	8 093
Trading space	(sqm)	**255 829**	237 728	258 463
Stock turn (annualised)*	(times)	**2.5**	2.9	2.8
Current ratio*		**3.8**	6.4	3.9
Credit ratios				
Credit sales	(%)	**57.1**	68.8	65.7
Debtor costs as a % of trade receivables	(%)	**5.5**	7.8	17.1
Debtors' impairment provision as a percentage of trade receivables*	(%)	**43.5**	28.4	43.9
Arrear instalments on satisfactory accounts as a percentage of trade receivables	(%)	**9.8**	9.8	9.8
Arrear instalments on slow-paying and non-performing accounts as a percentage of trade receivables	(%)	**30.4**	31.3	30.8
Credit applications decline rate	(%)	**38.5**	37.4	37.1
Shareholder ratios				
Net asset value per share*	(cents)	**5 922**	6 309	5 778
Gearing ratio	(%)	**(0.9)**	(0.9)	(1.6)
Dividend payout ratio	(%)	**57.0**	66.6	71.1
ROE (annualised, average shareholder's equity) – after tax*	(%)	**6.2**	5.2	5.1
ROCE (annualised, average capital employed) – after tax*	(%)	**5.4**	5.0	5.1
Average return on assets (annualised, average capital employed) – before tax*	(%)	**7.2**	6.4	6.6

Notes:
1. *All ratios are based on figures at the end of the year unless otherwise disclosed.*
2. *The net asset value has been calculated using 81 694 000 shares in issue (2017: 85 848 000).*
3. *Total assets exclude the deferred tax asset and the reinsurance asset.*
4. *Trade receivables refers to the gross carrying value.*
5. *Ratios marked with an asterisk calculated assuming that the IFRS 9, IFRS 15 and reclassifications were implemented as at 31 March 2018.*



IFRS 9 IMPLEMENTATION REPORT
(AS AT 1 APRIL 2018)

Lewis Group Limited
IFRS 9 Implementation Report

Directors' responsibility statement relating to IFRS 9 Implementation Report

as at 1 April 2018

Lewis Group Limited formally implemented new standards on 1 April 2018. The IFRS 9 Implementation Report ("Implementation Report") has been presented based on the group's 31 March 2018 financial information to illustrate the impact of implementing the new standards on 1 April 2018 (refer section 5 pages 55 to 62).

The directors of Lewis Group Limited and its subsidiaries ("the group") are responsible for the preparation and fair presentation of the financial information set out on pages 41 to 62. The Implementation Report sets out the effect of the adoption of new standards on the balance sheet, statement of changes in equity and selected notes as at 1 April 2018. The directors have approved the accounting policies applied and established that reasonable and sound judgements and estimates have been made by management when preparing the balance sheet, statement of changes in equity and selected notes.

Adequate accounting records and an effective system of internal controls have been maintained to ensure the integrity of the underlying information. For the year ended 31 March 2018, internal audit has performed a written assessment confirming the effectiveness of the group's system of internal control and risk management, including internal financial controls. The board is satisfied that the system of internal controls, which includes internal financial controls, operates effectively.

The Implementation Report has been prepared on the going concern basis. In assessing whether the going concern basis is appropriate, the directors have reviewed the business of the group together with budget and cash flows for the year to 31 March 2019 as well as the current financial position and have no reason to believe that the group will not be a going concern for the foreseeable future.

The group requested its external auditors, PricewaterhouseCoopers, to perform a reasonable assurance engagement, in accordance with ISAE 3420 Assurance Engagements, in respect of the information contained in sections 4 and 5 of the group's Implementation Report as at 1 April 2018.

The Implementation Report of the group as at 1 April 2018, has been approved by the directors and signed on their behalf by:

H Saven
Chairman

J Enslin
Chief Executive Officer

J Bestbier
Chief Financial Officer

Cape Town
21 November 2018

Independent auditor's assurance report

to the Directors of Lewis Group Limited

Report on the compilation of pro forma financial information included in the Lewis Group Limited IFRS 9 Implementation Report

We have completed our assurance engagement, for purposes of the Lewis Group Limited IFRS 9 Implementation Report, to report on the compilation of pro forma financial information of Lewis Group Limited ("the group") as at 31 March 2018 by the directors.

The pro forma financial information consists of the condensed consolidated statement of financial position as at 1 April 2018, the condensed consolidated statement of changes in equity as at 1 April 2018, the impact of IFRS 9 on trade and other receivables as at 1 April 2018 and the related notes, the impact of IFRS 15 on trade and other receivables and inventory as at 1 April 2018, the impact of reclassifications between trade and other receivables, payments in advance and trade payables, as well as the related deferred tax impact as set out in Section 5 of the IFRS 9 Implementation Report on pages 55 to 62. The applicable criteria on the basis of which the directors have compiled the pro forma financial information are described in Section 4: Basis of preparation, accounting policies and significant judgements (the "Applicable Criteria") in the IFRS 9 Implementation Report.

The pro forma financial information has been compiled by the directors to illustrate the impact of the adoption of IFRS 9, IFRS 15 and reclassifications (the "event"), as set out in section 5 on pages 55 to 62 of the IFRS 9 Implementation Report, on the group's financial position as at 31 March 2018 as if the event had taken place at 31 March 2018. As part of this process, information about the group's financial position has been extracted by the directors from the group's consolidated financial statements for the year ended 31 March 2018, on which an unmodified audit report was issued on 23 May 2018.

The directors' responsibility for the compilation of the financial information

The directors are responsible for compiling the pro forma financial information on the basis of the Applicable Criteria.

Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Professional Conduct for Registered Auditors* issued by the Independent Regulatory Board for Auditors (IRBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B).

The firm applies International Standard on Quality Control 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements* and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor's responsibility

Our responsibility is to express an opinion about whether the pro forma financial information has been compiled, in all material respects, by the directors on the basis specified in the Applicable Criteria based on our procedures performed.

We conducted our engagement in accordance with International Standard on *Assurance Engagements (ISAE) 3420, Assurance Engagements to Report on the Compilation of Pro Forma Financial Information included in a Prospectus,* which is applicable to an engagement of this nature, issued by the International Auditing and Assurance Standards Board. This standard requires that the auditor plan and perform procedures to obtain reasonable assurance about whether the pro forma financial information has been compiled, in all material respects, on the basis specified in the Applicable Criteria.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of the pro forma financial information included in the IFRS 9 Implementation Report is solely to illustrate the impact of the adoption of IFRS 9, IFRS 15 and reclassifications on unadjusted financial information of the group as if the adoption of IFRS 9 and IFRS 15 had occurred on 31 March 2018.

Accordingly, we do not provide any assurance that the actual outcome of the event or transaction as at 31 March 2018 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been compiled, in all material respects, on the basis of the Applicable Criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

Our engagement also involves evaluating the overall presentation of the pro forma financial information.

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

Our opinion

In our opinion, the pro forma financial information included in the IFRS 9 Implementation Report has been compiled, in all material respects, on the basis of the Applicable Criteria.

Independent auditor’s assurance report continued

Disclaimer and limitations

Our report is intended for the benefit of the directors of the Lewis Group Limited. Our work was not planned or conducted in contemplation of reliance by any third party or with respect to any specific transaction or other purpose other than stated in this report. Therefore, items of possible interest to a third party were not specifically addressed and matters may exist that would be assessed differently by a third party, possibly in connection with a specific transaction.

As noted above, this report has been prepared for the directors of Lewis Group Limited to provide reasonable assurance on the compilation of the pro forma financial information as set out in section 5 on pages 55 to 62 of the IFRS 9 Implementation Report and for no other purpose. We do not, in giving this report, accept or assume responsibility (legal or otherwise) or accept liability for or in connection with any other purpose for which our report may be used, or to any other person to whom our report is shown or into whose hands it may come, and no other persons shall be entitled to rely on our report save where they have obtained our prior written consent that they may do so.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: MC Hamman
Registered Auditor

Cape Town
21 November 2018

3. Executive summary

3.1 Objectives of the IFRS 9 Implementation Report

The objective of the IFRS 9 Implementation Report is to detail the impact of the transition from IAS 39 to IFRS 9. Also included in this report are the adjustments relating to the implementation of IFRS 15 and reclassifications made in order to provide a full understanding of the impact of the new standards adopted as at 1 April 2018.

3.2 Introduction of IFRS 9

The International Accounting Standards Board (IASB) issued International Financial Reporting Standard 9 – Financial Instruments (IFRS 9), effective for the group for the financial year ending 31 March 2019. IFRS 9 replaces IAS 39 – Financial Instruments: Recognition and Measurements (IAS 39). Lewis Group formally transitioned to IFRS 9 on 1 April 2018. This Implementation Report is based on the group's 31 March 2018 financial information to illustrate the impact of implementing IFRS 9 on 1 April 2018.

The objective of IFRS 9 is to establish principles for the reporting of financial assets and financial liabilities in particular relating to the classification and measurement of financial assets, hedging and the introduction of the expected credit loss (ECL) impairment provisioning model. The most significant impact of IFRS 9 on the group therefore relates to the implementation of the ECL impairment model on the measurement of receivables. This disclosure document explains the new ECL methodology, its implications for the group and the main judgements the group has made.

In terms of IAS 39, receivables measured at amortised cost were impaired when there was objective evidence of default as a result of events that occurred after the initial recognition. Therefore the incurred loss model applied. IFRS 9 introduces an ECL model which is forward looking. In terms of the transitional requirements of IFRS 9, the group has elected not to restate prior periods but to adjust the opening retained earnings as at 1 April 2018.

The financial impact on the group of IFRS 9 and IFRS 15 adjustments as at 1 April 2018 is as follows:

Group retained earnings -R631 million (R878 million pre-tax)	Impairment provision (pre-tax) +R803 million

3.3 Impact of IFRS 9 on the group's business model and credit practices

The adoption of IFRS 9 does not impact on the group's credit management practices and business model. The group's credit management strategies will continue to be consistently applied under IFRS 9. The key elements being:

Credit granting

The group has advanced credit granting systems to properly assess the customer. This includes risk scorecards for new customer applications and behavioural scorecards for existing customers. Processes to assess client affordability and to determine credit limits are supported by comprehensive interviews by the store manager and a head office compliance call centre.

3. Executive summary continued

Credit collections

Lewis operates a decentralised credit collection process with store based follow up. A fully integrated information system supports the administration of the store collection process.

Debtor performance management

The customer's payment performance is managed using payment ratings. Payment ratings measure the customer's actual payments received over the lifetime of the account relative to the instalments due in terms of the contract. These payment ratings are used to categorise customers and drive the follow up of slow paying and non-performing customers at store level. The payment rating remains integral to the calculation of the debtor's impairment provision. The estimated cash flows are projected utilising the payment ratings which are key to the ultimate cash recovery expected from each individual customer. The payment behaviour of the debtors book is continuously monitored by senior management to analyse and assess the state of the debtors book and identify trends early. The key indicators reviewed include the following:

Number of satisfactorily paid customers

The key operational objective is to have as many satisfactory paid customers as possible. Satisfactory paid customers are the source of future repeat business and one of the core strengths of the business model.

Level of impairment provision

The impairment provision applicable to the payment rating and the trending thereof, is correlated with collection rates and customer payment data produced by the credit risk information systems. Going forward the level of the impairment provision in terms of IFRS 9 will be monitored in a similar manner to that of the impairment provision under IAS 39.

Contractual arrears

It is Lewis' policy not to reschedule arrears nor to amend the terms of the original contract. The arrears presented in this document are the actual contractual arrears in terms of the original agreement. A customer who is paying less than the required contracted instalment immediately falls into arrears and once the customer exceeds the term of the agreement by paying less than the required contracted instalments, the full balance owing falls into arrears.

Write-off policy

Accounts in default are written off where the customer's payment behaviour cannot be rehabilitated after all reasonable commercially and economically appropriate collection methods have been utilised and exhausted. Bad debts result where the customer's account balance has been written off or the goods repossessed. The decision to write off takes into account, where applicable, the payment rating, recent payment behaviour, the number of arrear instalments, whether the customer has exceeded the contractual term and the age on book of the account.

3.4 Implementation of IFRS 9

An effective governance and control framework has been in place during the transition to IFRS 9. The group established an Implementation Committee with representation from all relevant departments reporting directly into the Audit Committee. The committee focused on the development of predictive cash flow models, impairment methodologies, output validation, testing and analysis. The ECL cash flow and impairment methodology has been developed with the necessary input from expert service providers. PricewaterhouseCoopers has performed a reasonable assurance engagement in accordance with ISAE 3420 Assurance Engagement in respect of the compilation of the information contained in sections 4 and 5 of the group's Implementation Report.

The key judgements made by the group upon the implementation of IFRS 9 have been approved by the Board through the IFRS 9 sub-committee of the Audit Committee. Ongoing decision-making is governed by the appropriate work group forum, which has been enabled to implement IFRS 9. IFRS 9 outlines a three stage general or a two stage simplified model.

General model

Stage 1

Performing accounts which have not deteriorated significantly in credit risk since origination have a 12-month ECL provision.

Stage 2

Accounts which have experienced a significant increase in credit risk since origination have a lifetime ECL provision.

Stage 3

Accounts where there is objective evidence of credit impairment, recognise interest at the effective interest rate on the gross carrying value less impairment provision.

Simplified model

Stage 2

IFRS 9 allows for a simplified model which eliminates the need to calculate the 12-month ECL provision for stage 1 accounts. Lewis has elected to apply for the simplified model for trade receivables and recognises expected credit losses over the lifetime of the trade receivable at initial recognition.

Stage 3

The criteria for stage 3 credit impaired accounts is consistent with internal credit risk management practices. These are:

- accounts which are non-performing;
- accounts within the ambit of the in duplum rule;
- accounts under debt counselling;
- accounts where the customer has missed three full consecutive instalments.

3. Executive summary continued

Impairment methodology

The lifetime ECL is calculated by determining cash flows on a probability weighted basis and discounting these at the effective interest rate in the contract, including initiation fees. The discounted cash flow is compared to the balance owing at point of assessment to determine the ECL.

The probability weighted cash flows are calculated using the debtor book population's payment behaviour in combination with a transition matrix. The transition matrix and payment performance for each payment state has been developed using the group's customer payment history. The transition matrix predicts the population's payment behaviour and probability of the account being in a particular payment state and transitioning into future payment states. The key states in the transitional matrix are the customer's lifetime payment rating, time on book and contractual term. For modelling purposes, cash flows are forecast until the account is written off or settled.

An economic overlay model was applied. The adjustment required was immaterial.

3.5 Overview of IFRS 9 transitional impact

The total balance sheet impairment provision increased by R803 million from R1.6 billion as at 31 March 2018 to R2.4 billion as at 1 April 2018. This is mainly driven by an increase in impairment of R658 million in the satisfactory category of accounts due to the forward looking nature of the expected loss provisioning methodology. The table below illustrates the impact of transitioning from IAS 39 to IFRS 9. Going forward, trade receivables will be reflected at gross carrying value which means that receivables will be presented after deducting the unearned provisions. Refer note 5.3 and the tables overleaf:

3.5 Overview of IFRS 9 transitional impact continued

IFRS 9

1 April 2018		Total number of customers	Gross carrying value R'000	Impairment provision R'000	Total arrears R'000
Satisfactory paid	Customers fully up to date including those who have paid 70% or more of amounts due over the contract period	**401 183**	**3 034 888**	**675 971**	**549 506**
		68.4%	**55.0%**	**27.9%**	**24.1%**
Slow payers	Customers who have paid between 70% and 55% of amounts due over the contract period	**97 251**	**1 039 846**	**608 716**	**665 893**
		16.5%	**18.9%**	**25.1%**	**29.3%**
Non-performing accounts	Customers who have paid 55% or less of amounts due over the contract period	**88 430**	**1 441 893**	**1 137 347**	**1 062 130**
		15.1%	**26.1%**	**47.0%**	**46.6%**
Total		**586 864**	**5 516 627**	**2 422 034**	**2 277 529**
Gross carrying value			**5 516 627**	**43.9%**	

The group has re-assessed its categories and aligned them with internal credit management policies. As a consequence of this re-assessment, the previously non-performing category where customers have paid between 55% and 65% of amounts due has been included with the slow paying customer category.

3.5 Overview of IFRS 9 transitional impact continued

IAS 39

31 March 2018		Total number of customers	Gross receivables R'000	Impairment provision R'000	Total arrears R'000
Satisfactory paid	Customers fully up to date including those who have paid 70% or more of amounts due over the contract period	**401 183**	**3 521 017**	**18 039**	**549 506**
		68.4%	**57.9%**	**1.1%**	**24.1%**
Slow payers	Customers who have paid between 70% and 65% of amounts due over the contract period	**51 311**	**522 578**	**196 021**	**308 975**
		8.7%	**8.6%**	**12.1%**	**13.6%**
Non-performing accounts	Customers who have paid between 65% and 55% of amounts due over the contract period	**45 940**	**563 339**	**262 519**	**356 918**
		7.8%	**9.3%**	**16.2%**	**15.7%**
Non-performing accounts	Customers who have paid 55% or less of amounts due over the contract period	**88 430**	**1 471 294**	**1 142 920**	**1 062 130**
		15.1%	**24.2%**	**70.6%**	**46.6%**
Total		**586 864**	**6 078 228**	**1 619 499**	**2 277 529**
Unearned provisions			**(469 549)**		
Gross carrying value			**5 608 679**	**28.9%**	

4. Basis of preparation, accounting policies and significant judgements

4.1 Basis of preparation

The group has adopted IFRS 9 with effect from 1 April 2018, accordingly accounting policies have been aligned with the requirements of IFRS 9. In adopting IFRS 9, comparative financial information has not been restated. The impact of transitioning is an adjustment to opening reserves as at 1 April 2018.

The impact of the adoption of IFRS 9 has been detailed and quantified below. Section 5 also includes the impact of IFRS 15 and reclassifications in addition to IFRS 9.

Section 4.2: Changes in accounting policies for financial instruments

This provides a summary of the key changes in the accounting policies resulting from the adoption of IFRS 9.

Section 4.3: Accounting policies for financial instruments

This details the new and amended accounting policies for financial instruments as a result of the transition to IFRS 9.

Section 4.4: Significant accounting estimates and judgements for financial instruments

This section details the significant judgements exercised and estimates made on application of the financial instrument policies adopted with the transition to IFRS 9.

Section 5: Impact of IFRS 9, IFRS 15 and Reclassifications

This section sets out adjustments and disclosures required in terms of the transitional guidance provided in IFRS 9. Other adjustments for IFRS 15 and reclassifications are also included. Reconciliations between the financial information as at 31 March 2018 and the financial information as at 1 April 2018 as a result of the implementation of IFRS 9, IFRS 15 and reclassifications are provided.

The group's balance sheet, statement of changes in equity and selected notes in the Implementation Report have been prepared on the historical cost basis with the exception of financial assets measured at fair value through other comprehensive income and financial assets and liabilities that are either required or have been elected to be fair value through profit and loss.

4. Basis of preparation, accounting policies and significant judgements continued

4.2 Changes in accounting policies for financial instruments

The major changes in accounting policies arising from the adoption of IFRS 9 can be summarised as follows:

- the impairment of financial assets has been significantly amended by IFRS 9. The main impact being that IFRS 9 introduces an expected credit loss model when assessing the impairment of financial assets. The group has elected to use the simplified model for trade receivables while the general model applies to all other financial assets. The approach to the impairment of financial assets and the underlying models (i.e. general and simplified models) appear in the following notes:
  - Impairment of financial assets, excluding trade receivables (section 4.3.3.1)
  - Impairment of trade receivables (section 4.3.3.2)
- the classification of financial instruments and corresponding accounting treatment has been amended by IFRS 9. The classification and corresponding accounting treatment appear in the following notes:
  - Business Model Assessment (section 4.3.1)
  - Solely payment of principle and interest (SPPI) (section 4.3.2)
- bad debts policy as it is a requirement of IFRS 9 to write off the asset when there is no reasonable expectations of recovery (section 4.3.4).
- interest income policy to cater for the requirements of IFRS 9 that the effective interest rate on credit impaired assets must be applied to its amortised cost i.e. gross carrying value less impairment provision (section 4.3.5).

4.3 Accounting policies for financial instruments – new and amended due to IFRS 9

Accounting policies related to financial instruments have been significantly amended as a consequence of the implementation of IFRS 9. The following significant changes to the accounting policies for financial instruments have been made:

4.3.1 Business model assessment

For debt instruments, IFRS 9 requires that a business model assessment is carried out which reflects how the group manages the assets in order to generate cash flows. The assessment is at a portfolio level which is the level at which the portfolio is managed. Factors considered in determining the business model for a group of assets include past experience on how cash flows were collected, how the assets' performance is evaluated and reported, risks that affect the assets performance and how these risks are assessed and managed and the reasons, frequency, volume of timing of sales in prior periods.

With the adoption of IFRS 9, debt instruments have been classified into the following categories:

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

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

Amortised cost (hold to collect):

Financial assets within a business model whose objective is solely to hold assets to collect contractual cash flows and the contractual terms of these assets are solely payments of principal and interest (refer section 4.3.2).

FVOCI (hold to collect and sell):

Financial assets held within a business model whose objective is both to hold these assets to collect contractual cash flows and to sell these assets and that the contractual terms of financial assets are solely payments of principal and interest (refer section 4.3.2).

FVTPL (hold to sell/manage in a fair value basis):

Financial assets are held within a business model where the objective is to sell and manage these assets on a fair value basis. In addition, financial assets can also be included in this category if:

- the use of this classification removes or significantly reduces an accounting mismatch;
- financial assets which do not meet the criteria for amortised cost or FVOCI.

The group has no equity investments and, therefore, the irrevocable election to present an equity investment as FVOCI in paragraph 5.7.5 of IFRS 9 is not applicable.

4. Basis of preparation, accounting policies and significant judgements continued

4.3.2 Solely payment of principal and interest (SPPI)

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the group assesses whether the assets' cash flows represent solely payments of principal and interest (the SPPI test). In making this assessment, the group considers whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms are inconsistent with a basic lending arrangement, the asset is classified and measured at FVTPL.

4.3.3 Impairment of financial assets

4.3.3.1 Impairment of financial assets (excluding trade receivables)

The expected credit loss ("ECL") model applies to financial assets classified at amortised cost and/or FVOCI. ECL is a probability weighted estimate of losses. A credit loss is the difference between the cash flows that are due to the entity in accordance with the contract and the cash flows it expects to receive, discounted at the original effective interest rate implicit in the financial asset.

The general model for impairment is recognised as follows:

Stage 1

ECL is recognised on initial recognition and measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months.

Stage 2

At each reporting date the group assesses whether there has been a significant increase in credit risks ("SICR") since initial recognition. Where evidence exists that there has been a SICR, the ECL is based on expected credit losses over the lifetime of the asset.

Stage 3

Financial assets become credit impaired as a result of a default loss event that has occurred after initial recognition. ECL is based on estimated credit losses over the lifetime of the account. For these credit impaired assets, the interest or return on these assets are calculated on the amortised cost. Amortised cost is defined as the gross carrying value on initial recognition (adjusted for any modifications) less the impairment provision.

The impairment gains or losses are presented as follows:

- for amortised cost assets, through the income statement
- for debt instruments classified as FVOCI, through the income statement

4.3.3.2 Impairment of trade receivables

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

In accordance with paragraph 5.5.15 (a)(ii), the group has elected to measure the impairment allowance at an amount equal to the lifetime expected credit losses. This policy will be applied to all trade receivables.

The impact of the election is to recognise the impairment provision at stage 2 (refer section 4.3.3.1 above) on initial recognition of the trade receivable.

The ECL is a probability weighted estimate and represents the difference between the cash flow that is due to the entity in accordance with the contract and the cash flows the entity expects to receive, discounted at the original effective interest rate (contractual interest rate and initiation fee included in the customer contract).

Where trade receivables have become credit impaired as a result of loss events that have occurred after initial recognition, those receivables are classified as stage 3 (refer section 4.3.3.1 above). The effective interest recognised on these assets is calculated on the amortised cost being defined as gross carrying value on initial recognition (adjusted for any modification) less the impairment provision.

4.3.4 Bad debts

The group writes off trade receivables when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery.

4.3.5 Interest income

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

4. Basis of preparation, accounting policies and significant judgements continued

4.4 Significant accounting estimates and judgements for financial instruments

4.4.1 Trade receivables

1. Business model

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

Trade receivables are held to collect contractual cash flows and the contractual terms of the trade receivables are solely payments of principal and interest. Accordingly, the assessment of the business model is that of holding to collect and, therefore, trade receivables are accounted for on an amortised cost basis.

2. Modifications

The ECL is calculated with reference to the original contract with the customer. No modifications are made to the contract or the contractual cash flows as contemplated by IFRS 9. Cash flows may be renegotiated for credit management purposes, however, the contractual terms and contractual cash flows agreed with the customer remain unchanged.

3. Impairment modelling

3.1 Probability weighted cash flows

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

- customer's lifetime payment rating which measures the customer's actual payments received over the lifetime of the account relative to the contractual instalments due
- age of the account
- term of the contract

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

4.4.1 **Trade receivables** continued

3.2 Economic overlay

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 55% or less of amounts due over the contract period). Three economic variables were identified as having statistical significance:

- Nominal effective exchange rate of the rand (basket of 20 currencies)
- Prime overdraft rate
- Unemployment rate

A base, high and low scenarios using the economic variables above are 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 adjustment as at the date of transition was immaterial.

4. Credit impaired (stage 3)

The criteria for credit impaired accounts (i.e. when the account moves to stage 3 as a result of loss events that have occurred after initial recognition) are as follows:

- Non-performing accounts (i.e. customers who have paid 55% or less of the amounts due over the contract period)
- In duplum accounts
- Debt counselling accounts
- As a backstop, accounts not included in the above categories, where no payment has been received over the last three consecutive months

A credit impaired account will cure when the customer does not meet the criteria for being a credit impaired account. For a customer to cure a significant improvement in the customer's payment behaviour is required.

With regard to credit impaired accounts, interest income is recognised by applying the effective interest rate to the amortised cost, i.e. gross carrying value less impairment provision, resulting in lower interest revenue.

5. Unpaid Insurance

Unearned and unpaid insurance receivables of R375.2 million has been included in trade receivables. Impairment of R170.1 million relating to insurance receivables has been included in the impairment provision for trade receivables. Insurance receivables are recognised and measured in terms of IFRS 4 Insurance Contracts and the group has not amended its policies for the measurement of IFRS 4. The insurance receivables are therefore excluded from the scope of IFRS 9's expected credit loss impairment.

4. Basis of preparation, accounting policies and significant judgements continued

4.4.2 Bad debts

A store based collection system allows the collection staff to deal with customers face to face, thus maximising collections and minimising debtor's costs.

Bad debt write-offs take place at the end of each reporting period (i.e. September and March). Bad debt write-offs take place where accounts are in default and the customer's payment behaviour cannot be rehabilitated after all reasonable commercially and economically appropriate collection methods have been utilised and exhausted. The bad debt write-offs are initiated where payment behaviour is poor in the three months preceding the write-off for the following categories:

- customers significantly in arrears
- non-performing customers in terms of the business' credit management practices
- customers with old out-of-term accounts

Strong collection drives precede the write-offs and there is no reasonable prospect of significant recoveries once the customer account has been written off.

4.4.3 Insurance investments

The group holds the following investments:

- fixed income securities
- money market investments

From a business model assessment, these assets are held to collect the contractual cash flows and to sell the assets. The fixed income securities and money market investments meet the SPPI test and are accounted for at FVOCI.

Fixed income securities are almost entirely risk-free government bonds or government-guaranteed securities. Money market investments are invested with credit-worthy financial institutions. Both foreign and local credit ratings are monitored to assess credit-worthiness. There is no expectation of any significant losses arising from these investments.

5. Impact of IFRS 9, IFRS 15 and Reclassifications

The information set out below reflect the following:

- The amounts reported in the audited group financial statements for the year ended 31 March 2018.
- IFRS 9 Adjustments relating to the transition to IFRS 9 on 1 April 2018. ("IFRS 9 Adjustments"). These relate to the adoption of the expected credit loss model ("ECL"). Refer section 5.5.
- Reclassification in terms of IFRS 9 has been addressed in section 5.4.
- Adjustments relating to the transition to IFRS 15 on 1 April 2018 and reclassifications. Details of these adjustments are set out in section 5.5.
- The transitioned balance sheet, statement of changes in equity and selected notes as at 1 April 2018.

5. Impact of IFRS 9, IFRS 15 and Reclassifications continued

5.1 Impact on Balance Sheet as at 1 April 2018

	Group 31 March 2018 Rm	IFRS 9 Adjustments Rm	Other Adjustments Rm	Group 1 April 2018 Rm
Assets				
Non-current assets				
Deferred taxation	10.9	145.8	10.1	166.8
Financial assets – insurance investments	471.0			471.0
Other non-current assets	698.3			698.3
Current assets				
Inventories	579.7		26.5	606.2
Trade and other receivables	4 068.9	(841.9)	78.4	3 305.4
Financial assets – insurance investments	135.4			135.4
Other current assets	820.5			820.5
Total assets	6 784.7	(696.1)	115.0	6 203.6
Equity and liabilities				
Capital and reserves	5 448.5	(604.8)	(26.0)	4 817.7
Liabilities				
Deferred taxation	121.0	(91.3)		29.7
Trade and other payables	417.0		(27.9)	389.1
Payments in advance			168.9	168.9
Other liabilities	798.2			798.2
	1 336.2	(91.3)	141.0	1 385.9
Total equity and liabilities	6 784.7	(696.1)	115.0	6 203.6

5.2 Impact on Statement of Changes in Equity as at 1 April 2018

	Group 31 March 2018 Rm	IFRS 9 Adjustments Rm	Other Adjustments Rm	Group 1 April 2018 Rm
Share capital and premium	425.0			425.0
Treasury shares	(480.2)			(480.2)
Other reserves	42.6			42.6
Retained earnings	5 461.1	(604.8)	(26.0)	4 830.3
Balance at 1 April 2018	5 448.5	(604.8)	(26.0)	4 817.7

5.3 Impact on accounts receivable as at 1 April 2018

5.3.1 Trade receivables

	Group 31 March 2018 Rm	IFRS 9 Adjustments Rm	Other Adjustments Rm	Group 1 April 2018 Rm
Trade receivables at gross carrying value	5 477.6	(39.3)	78.4	5 516.7
Provision for impairment	(1 619.5)	(802.6)		(2 422.1)
Trade receivables at amortised cost	3 858.1	(841.9)	78.4	3 094.6
Other receivables	210.8			210.8
	4 068.9	(841.9)	78.4	3 305.4
Debtors' impairment provision as % of trade receivables	29.6%			43.9%

5. Impact of IFRS 9, IFRS 15 and Reclassifications continued

5.3.2 Reconciliation between IAS 39 and IFRS 9

5.3.2.1 Impairment provision

	Group 31 March 2018 R'000	Category Adjustments R'000	IFRS 9 Adjustments R'000	Group 1 April 2018 R'000
Satisfactory paid	18 039		657 932	675 971
	1.1%			27.9%
Slow payers	196 021	262 519	150 176	608 716
	12.1%			25.1%
Non-performing accounts	262 519	(262 519)		–
	16.2%			0.0%
Non-performing accounts	1 142 920		(5 573)	1 137 347
	70.6%			47.0%
Total	1 619 499	–	802 535	2 422 034

The group has re-assessed its categories and aligned them with internal credit management policies. As a consequence of this re-assessment, the previously non-performing category where customers have paid between 55% and 65% of amounts due, has been included with the slow paying customer category.

5.3.3 Combined impairment and contractual arrears table for IFRS 9

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.
  - The gross carrying value of trade receivables.
  - Impairment provision allocated to each grouping.
  - Contractual arrears for each grouping have been categorised by number of instalments in arrears.

Gross trade receivable analysis restated for IFRS 9

1 April 2018	Total number of customers	Gross carrying value of receivables 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	401 183	3 034 888	675 971	22.3%	549 506	155 673	105 593	77 633	210 607
	68.4%	55.0%	27.9%		24.1%				
Slow payers	97 251	1 039 846	608 716	58.5%	665 893	72 167	69 010	64 474	460 242
	16.5%	18.9%	25.1%		29.3%				
Non-performing accounts	88 430	1 441 893	1 137 347	78.9%	1 062 130	67 452	66 131	64 513	864 034
	15.1%	26.1%	47.0%		46.6%				
Total	586 864	5 516 627	2 422 034	43.9%	2 277 529	295 292	240 734	206 620	1 534 883

Definitions for customers payment categories

Satisfactory paid

Customers who have paid 70% or more of amounts due over the contract period.

Slow payers

Customers who have paid 55% to 70% of amounts due over the contract period.

Non-performing accounts

Customers who have paid 55% or less of amounts due over the contract period.

5. Impact of IFRS 9, IFRS 15 and Reclassifications continued

5.3.4 Credit impaired trade receivables

Credit impaired categories	Non-performing accounts	In duplum	Debt counselling	No payment in three consecutive months	Total
Gross carrying value as at 1 April 2018	1 441 893	31 622	107 572	135 776	1 716 863
Impairment provision	(1 137 347)	(19 525)	(54 342)	(59 360)	(1 270 574)
Amortised cost	**304 546**	**12 097**	**53 230**	**76 416**	**446 289**

These are accounts that have moved into stage 3 as a result of loss events that have occurred after initial recognition and are presented at gross carrying value and amortised cost.

5.4 Reclassification of financial assets on adoption of IFRS 9

On the date of initial application, 1 April 2018, the financial assets of the group were reclassified in terms of IFRS 9 as follows:

	Measurement category		Carrying value		
	Original IAS 39	New IFRS 9	Original Rm	New Rm	Difference Rm
Non-current financial assets					
Insurance investments	Available-for-sale	**FVOCI**	471.0	**471.0**	–
Current financial assets					
Trade and other receivables	Loans and receivables	**Amortised cost**	4 068.9	**3 305.4**	763.5
Cash on hand and on deposit	Amortised cost	**Amortised cost**	608.4	**608.4**	–
Insurance investments	Available-for-sale	**FVOCI**	135.4	**135.4**	–

5.5 Summary of adjustments

1. IFRS 9 Expected Credit Loss Model

The impairment of trade receivables has been significantly amended by IFRS 9 with the introduction of an expected credit loss model. The group has elected to use the simplified model for trade receivables which recognises the expected credit losses over the life of the account on initial recognition. The adjustment to opening retained earnings for the transition to the expected credit loss model as at 1 April 2018 is as follows:

	Rm
Decrease in trade receivables	**(841.9)**
Gross carrying value	**(39.3)**
Impairment provision	**(802.6)**
Attributable deferred tax	**237.1**
Decrease in retained income as at 1 April 2018	**(604.8)**

2. IFRS 15 – Cancelled Sales

It is policy to sell goods with the right of return in terms of current consumer legislation. Such sales are cancelled where the right of return is exercised. Under IFRS 15, a refund liability for the expected refunds is recognised as an adjustment to revenue, trade receivables and trade payables. The corresponding right to recover the product from the customer is an adjustment to cost of sales and inventory. The accumulated experience of the portfolio has been utilised to estimate such returns at the time of sale.

The adjustment to opening retained earnings as at 1 April 2018 is as follows:

	Rm
Gross amounts	**(36.1)**
Reduction in trade receivables	**(52.7)**
Increase in trade payables	**(9.9)**
Increase in inventory	**26.5**
Attributable deferred tax	**10.1**
Decrease in retained income	**(26.0)**

5. Impact of IFRS 9, IFRS 15 and Reclassifications continued

5.5 Summary of adjustments continued

3. Reclassifications

The following reclassifications were made:

Where customers have settled their accounts or where customers have paid in advance of Lewis' performing under the maintenance contract, there was a remaining period under the said maintenance contract for which Lewis still had to provide a service. Previously, the gross carrying value of trade receivables was incorrectly reduced to the extent of the remaining unearned maintenance income. This has been reclassified to payments in advance and disclosed separately under current liabilities.

Where customers have paid in advance for goods still to be delivered under the sales contract, this was previously included in trade and other payables. This has been reclassified as payments in advance.

The reclassifications have the following impact on trade receivables and trade and other payables and payments in advance as at 31 March 2018:

	Rm
Increase in trade receivables	**131.1**
Decrease in trade payables	**37.8**
Payments in advance	**168.9**

Lewis Group Limited
Corporate information

Non-executive directors:	Hilton Saven (Independent non-executive chairman), Fatima Abrahams, Adheera Bodasing, Daphne Motsepe, Alan Smart, 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; 7 Rosebank Towers, 15 Biermann Ave, Rosebank, Johannesburg, 2196; PO Box 61051, Marshalltown, 2107.
Auditors:	PricewaterhouseCoopers Inc.
Sponsor:	UBS South Africa (Pty) Ltd.
Registered office:	53A Victoria Road, Woodstock, 7925.
Registration number:	2004/009817/06.
Share code:	LEW
ISIN:	ZAE000058236

Notes

www.lewisgroup.co.za