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DIRECTORS' RESPONSIBILITY STATEMENT

Management has prepared the annual financial statements in accordance with International Financial Reporting Standards ("IFRS") and the Companies Act of South Africa.

The financial statements, which present the results and financial position of the company and its subsidiaries, are the responsibility of the directors.

In fulfilling its responsibility, the board of directors has approved the accounting policies applied and established that reasonable and sound judgements and estimates have been made by management when preparing the financial statements.

Adequate accounting records and an effective system of internal controls have been maintained to ensure the integrity of the underlying information.

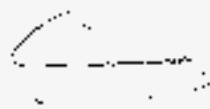
A well-established control environment, which incorporates risk management and internal control procedures, exists to provide reasonable, but not absolute assurance that assets are safeguarded and the risk facing the business is being adequately managed.

The board of directors has reviewed the business of the group together with budget and cash flows for the year to

31 March 2011, as well as the current financial position and has no reason to believe that the group will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the financial statements.

PricewaterhouseCoopers Inc, as external auditors, have examined the financial statements and their report appears on page 63.

The financial statements of the group and the company for the year ended 31 March 2010, which appear on pages 64 to 115 have been approved by the board of directors and signed on their behalf by:



D M Nurek

Chairman

Cape Town

19 May 2010

J Enslin

Chief Executive Officer

COMPANY SECRETARY'S CERTIFICATE

In my capacity as company secretary, I hereby confirm to the best of my knowledge and belief that all returns required of a public company have, in respect of the year under review, been lodged with the Registrar of Companies and that all such returns are true, correct and up to date.



M G McConnell

Company Secretary

Cape Town

19 May 2010

TO THE MEMBERS OF LEWIS GROUP LIMITED

We have audited the group annual financial statements and annual financial statements of Lewis Group Limited, which comprise the consolidated and separate balance sheets as at 31 March 2010, the consolidated and separate income statements, the consolidated and separate statement of comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report and Annexure A as set out on pages 64 to 115.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The group's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

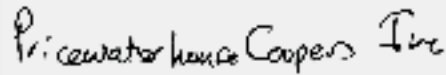
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of Lewis Group Limited as at 31 March 2010, its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.



PricewaterhouseCoopers Inc

Director: Z Abrahams

Registered Auditor

Cape Town

19 May 2010

DIRECTORS' REPORT

NATURE OF BUSINESS

Lewis Group Limited is a holding company listed on the JSE Limited, operating through two main trading subsidiaries, Lewis Stores (Proprietary) Limited and Monarch Insurance Company Limited. Lewis Stores (Proprietary) Limited offers a selected range of furniture and appliances through 436 Lewis, 92 Best Home and Electric and 20 Lifestyle Living stores. Sales are mainly on credit. Monarch Insurance Company Limited, a registered short-term insurer, underwrites customer protection insurance benefits to South African customers. In addition, there are also trading subsidiaries in Botswana, Lesotho, Namibia and Swaziland operating under the Lewis brand.

The nature of the business of the subsidiaries is set out on page 115.

REVIEW OF FINANCIAL RESULTS AND ACTIVITIES

The financial results and affairs of the group are reflected in the annual financial statements set out on pages 66 to 115.

SEGMENTAL ANALYSIS

Segmental information is set out in the segmental report on page 70 of the annual financial statements.

POST-BALANCE SHEET EVENTS

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

SHARE CAPITAL

The company's authorised and issued share capital remained unchanged during the year.

TREASURY SHARES

The group has purchased 9 216 928 (9.2%) of its own shares on the open market through its subsidiary, Lewis Stores (Proprietary) Limited. Refer note 8.1 and 8.2 for more detail.

The Lewis Employee Incentive Scheme Trust effectively holds 810 706 shares, all of which will be utilised to cover share awards granted to executives. Details have been set out in notes 8 and 18.3 to the financial statements.

DIVIDENDS

The following dividends have been declared or proposed for the financial year ended 31 March 2010:

| | Dividend per share | Date declared | Payable |
|--------------------|-----------------------|------------------|--------------|
| Interim – declared | 144 cents | 9 Nov 2009 | 25 Jan 2010 |
| Final – proposed | 179 cents | 19 May 2010 | 26 July 2010 |
| For the year | 323 cents | | |

Notice is hereby given that a final cash dividend of 179 cents per share in respect of the year ended 31 March 2010 has been declared payable to the holders of ordinary shares recorded in the books of the company on Friday, 23 July 2010. The last day to trade cum dividend will therefore be Friday, 16 July 2010 and Lewis shares will trade ex-dividend from Monday, 19 July 2010. Payment of the dividend will be made on Monday, 26 July 2010. Share certificates may not be dematerialised or rematerialised between Monday, 19 July 2010 and Friday, 23 July 2010, both days inclusive.

DIRECTORS

David Nurek, Alan Smart, Hilton Saven, Ben van der Ross, Professor Fatima Abrahams and Les Davies remained directors during the year. Zarina Bassa and Sizakele Marutlulle were appointed as non-executive directors on 1 October 2009.

Alan Smart retired as the chief executive officer on 30 September 2009 and Johan Enslin was appointed as chief executive officer and as a director on 1 October 2009. Alan Smart has agreed to continue to serve as a director in a non-executive capacity.

In terms of the articles of association of the company the following will retire and have offered themselves for re-election:

Z Bassa
L A Davies
J Enslin
S Marutlulle
B J van der Ross

COMPANY SECRETARY

M G McConnell remained as company secretary throughout the year. The address of the company secretary is that of the registered offices as stated on the inside cover.

DIRECTORS' INTERESTS

At 31 March 2010, the directors' beneficial direct and indirect interest in the company's issued shares were as follows:

| | 2010 | | 2009 | |
|------------|----------------|---------------|---------|----------|
| | Direct | Indirect | Direct | Indirect |
| D M Nurek | - | 10 000 | - | 10 000 |
| H Saven | - | 2 940 | - | 2 940 |
| A J Smart | 319 070 | - | 260 555 | 40 259 |
| J Enslin | - | 27 388 | n/a | n/a |
| L A Davies | 50 000 | 25 908 | 50 000 | 25 337 |
| | 369 070 | 66 236 | 310 555 | 78 536 |

n/a = not applicable since appointed as a director on 1 October 2009

The following share awards have been made to directors:

| | |
|------------|---------|
| J Enslin | 252 423 |
| A J Smart | 34 718 |
| L A Davies | 210 068 |

Full details of the terms and conditions in relation to these share awards are set out in note 18.4 to the financial statements.

During the course of the year, no director had a material interest in any contract of significance with the company or any of its subsidiaries that could have given rise to a conflict of interest.

No related party transaction in terms of the JSE Limited Listings Requirements took place between the company and its subsidiaries and the directors or their associates, other than remuneration for services rendered to the company as set out in note 18.4 to the financial statements.

SUBSIDIARY COMPANIES

Details of the company's subsidiaries are set out on page 115.

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

| | 2010 Rm | 2009 Rm |
|--------|------------|------------|
| Profit | 597.6 | 571.0 |
| Losses | - | - |

BORROWING POWERS

Borrowings were R961.4 million at 31 March 2010 (2009: R737.0 million). Borrowings are subject to the treasury policy adopted by the board of directors. In terms of the articles of association, the group has unlimited borrowing powers.

INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2010

| | | GROUP | |
|---|-------|------------------|------------------------|
| | Notes | 2010 Rm | 2009 Restated Rm |
| REVENUE | | 4 110.6 | 3 807.1 |
| Merchandise sales | | 2 045.5 | 1 919.9 |
| Finance charges earned | | 907.1 | 826.6 |
| Insurance premiums earned | 16 | 616.0 | 581.4 |
| Ancillary services | | 542.0 | 479.2 |
| COST OF MERCHANDISE SALES | 17 | (1 330.6) | (1 318.3) |
| OPERATING COSTS | | (1 872.8) | (1 656.5) |
| Employment costs | 18 | (607.4) | (542.0) |
| Administration and IT | | (194.7) | (176.0) |
| Debtor costs | 19 | (434.2) | (338.8) |
| Marketing | | (134.3) | (124.0) |
| Occupancy costs | | (165.1) | (150.5) |
| Transport and travel | | (135.9) | (138.8) |
| Depreciation | | (46.3) | (47.3) |
| Other operating costs | | (154.9) | (139.1) |
| OPERATING PROFIT | 21 | 907.2 | 832.3 |
| Investment income | 22 | 77.5 | 76.9 |
| PROFIT BEFORE FINANCE COSTS | | 984.7 | 909.2 |
| NET FINANCE COSTS | | (121.2) | (86.5) |
| Interest paid | 23.1 | (94.7) | (108.5) |
| Interest received | 23.2 | 6.0 | 11.5 |
| Forward exchange contracts | 23.3 | (32.5) | 10.5 |
| PROFIT BEFORE TAXATION | | 863.5 | 822.7 |
| Taxation | 24 | (272.1) | (261.5) |
| NET PROFIT ATTRIBUTABLE TO ORDINARY SHAREHOLDERS | | 591.4 | 561.2 |
| Earnings per share (cents) | 25 | 672.0 | 636.2 |
| Diluted earnings per share (cents) | 25 | 669.5 | 633.2 |

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2010

| | | GROUP | |
|--|--|---------------|------------------------|
| | | 2010 Rm | 2009 Restated Rm |
| Net profit for the year | | 591.4 | 561.2 |
| Fair value adjustments of available-for-sale investments | | 87.1 | (40.0) |
| Fair value adjustments of available-for-sale investments | | 99.4 | (47.6) |
| Tax effect | | (12.3) | 7.6 |
| Disposal of available-for-sale investments recognised | | (21.3) | 2.4 |
| Disposal of available-for-sale investments | | (23.6) | 2.6 |
| Tax effect | | 2.3 | (0.2) |
| Foreign currency translation reserve | | (7.4) | 4.4 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO EQUITY SHAREHOLDERS | | 649.8 | 528.0 |

BALANCE SHEET

AT 31 MARCH 2010

| GROUP | | | | |
|--|-------|----------------|------------------------|------------------------|
| | Notes | 2010 Rm | 2009 Restated Rm | 2008 Restated Rm |
| ASSETS | | | | |
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | 4 | 251.1 | 225.1 | 197.5 |
| Deferred taxation | | 13.0 | – | – |
| Investments – insurance business | 5 | 716.0 | 535.1 | 505.4 |
| | | 980.1 | 760.2 | 702.9 |
| CURRENT ASSETS | | | | |
| Inventories | 6 | 210.0 | 228.0 | 230.4 |
| Trade and other receivables | 7 | 3 427.6 | 2 893.4 | 2 571.8 |
| Taxation | | – | – | 29.6 |
| Investments – insurance business | 5 | 178.1 | 199.1 | 159.5 |
| Cash on hand and deposits | | 62.2 | 54.8 | 66.8 |
| | | 3 877.9 | 3 375.3 | 3 058.1 |
| TOTAL ASSETS | | 4 858.0 | 4 135.5 | 3 761.0 |
| EQUITY AND LIABILITIES | | | | |
| CAPITAL AND RESERVES | | | | |
| Share capital and premium | 8 | 93.5 | 97.8 | 149.1 |
| Other reserves | 9 | 171.3 | 107.4 | 128.4 |
| Retained earnings | 10 | 3 008.9 | 2 695.1 | 2 418.7 |
| | | 3 273.7 | 2 900.3 | 2 696.2 |
| NON-CURRENT LIABILITIES | | | | |
| Long-term interest-bearing borrowings | 11 | 350.0 | 100.0 | – |
| Deferred taxation | 12 | 84.5 | 37.7 | 1.3 |
| Retirement benefits | 13 | 51.8 | 53.9 | 57.7 |
| | | 486.3 | 191.6 | 59.0 |
| CURRENT LIABILITIES | | | | |
| Trade and other payables | 14 | 450.0 | 404.1 | 302.4 |
| Taxation | | 36.6 | 2.5 | – |
| Short-term interest-bearing borrowings | 15 | 611.4 | 637.0 | 703.4 |
| | | 1 098.0 | 1 043.6 | 1 005.8 |
| TOTAL EQUITY AND LIABILITIES | | 4 858.0 | 4 135.5 | 3 761.0 |

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2010

GROUP

| | Notes | 2010 Rm | 2009 Restated Rm |
|---|-------|----------------|------------------------|
| SHARE CAPITAL AND PREMIUM | 8 | 93.5 | 97.8 |
| Opening balance | | 97.8 | 149.1 |
| Cost of own shares acquired: | | | |
| Treasury shares | | (4.3) | (12.9) |
| Cancelled shares | | - | (38.4) |
| OTHER RESERVES | 9 | 171.3 | 107.4 |
| Opening balance | | 107.4 | 128.4 |
| Other comprehensive income: | | | |
| Fair value adjustments of available-for-sale investments | | 87.1 | (40.0) |
| Disposal of available-for-sale investments recognised | | (21.3) | 2.4 |
| Foreign currency translation reserve | | (7.4) | 4.4 |
| Share-based payment | | 10.9 | 10.6 |
| Transfer of share-based payment reserve to retained income on vesting | | (11.5) | (0.2) |
| Transfer to contingency reserve | | 6.1 | 1.8 |
| RETAINED EARNINGS | 10 | 3 008.9 | 2 695.1 |
| Opening balance | | 2 695.1 | 2 418.7 |
| As previously reported | | | 2 452.5 |
| Prior year adjustment | | | (33.8) |
| Net profit attributable to ordinary shareholders | | 591.4 | 561.2 |
| Profit on sale of own shares | | 1.4 | 1.1 |
| Transfer of share-based payment reserve to retained income on vesting | | 11.5 | 0.2 |
| Transfer to contingency reserve | | (6.1) | (1.8) |
| Distribution to shareholders | 26 | (284.4) | (284.3) |
| BALANCE AT 31 MARCH 2010 | | 3 273.7 | 2 900.3 |
| Dividends paid per share (cents) | | 323.0 | 323.0 |
| Dividends declared per share (cents) | | 323.0 | 323.0 |

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2010

| GROUP | | | |
|---|-------|----------------|------------|
| | Notes | 2010 Rm | 2009 Rm |
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Cash generated from operations | 27.1 | 478.1 | 669.7 |
| Interest and dividends received | | 59.9 | 96.3 |
| Interest paid | | (127.2) | (108.5) |
| Taxation paid | 27.2 | (214.2) | (185.6) |
| CASH RETAINED FROM OPERATING ACTIVITIES | | 196.6 | 471.9 |
| CASH UTILISED IN INVESTING ACTIVITIES | | | |
| Net additions to insurance business investments | | (60.5) | (111.7) |
| Acquisition of property, plant and equipment | | (74.0) | (77.0) |
| Proceeds on disposal of property, plant and equipment | | 8.2 | 5.7 |
| NET CASH OUTFLOW FROM INVESTING ACTIVITIES | | (126.3) | (183.0) |
| CASH EFFECTS OF FINANCING ACTIVITIES | | | |
| Purchase of own shares | | (4.3) | (51.3) |
| Dividends paid | 26 | (284.4) | (284.3) |
| Proceeds on sale of own shares | | 1.4 | 1.1 |
| Increase in long-term borrowings | | 250.0 | 100.0 |
| NET CASH OUTFLOW FROM FINANCING ACTIVITIES | | (37.3) | (234.5) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 33.0 | 54.4 |
| Cash and cash equivalents at the beginning of the year | | (582.2) | (636.6) |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 27.3 | (549.2) | (582.2) |

SEGMENTAL REPORT

FOR THE YEAR ENDED 31 MARCH 2010

| | GROUP | | | |
|-------------------------------------|------------------|---------------------------|---------------------|------------------|
| | Lewis Rm | Best Home and Electric Rm | Lifestyle Living Rm | Total Rm |
| REPORTABLE SEGMENT | | | | |
| 2010 | | | | |
| SEGMENT INCOME STATEMENT | | | | |
| Total revenue to external customers | 3 470.3 | 503.4 | 136.9 | 4 110.6 |
| Merchandise sales | 1 689.5 | 243.7 | 112.3 | 2 045.5 |
| Other revenue | 1 780.8 | 259.7 | 24.6 | 2 065.1 |
| Cost of merchandise sales | (1 090.6) | (165.6) | (74.4) | (1 330.6) |
| Operating costs | (1 571.0) | (241.6) | (60.2) | (1 872.8) |
| Segment operating profit | 808.7 | 96.2 | 2.3 | 907.2 |
| Segment operating margin | 23.3% | 19.1% | 1.7% | 22.1% |
| Segment assets ¹ | 3 072.8 | 410.4 | 62.4 | 3 545.6 |
| Capital expenditure | 68.2 | 5.6 | 0.2 | 74.0 |
| Depreciation | 41.0 | 4.2 | 1.1 | 46.3 |
| 2009 | | | | |
| SEGMENT INCOME STATEMENT | | | | |
| Total revenue to external customers | 3 204.5 | 454.3 | 148.3 | 3 807.1 |
| Merchandise sales | 1 568.5 | 226.0 | 125.4 | 1 919.9 |
| Other revenue | 1 636.0 | 228.3 | 22.9 | 1 887.2 |
| Cost of merchandise sales | (1 077.9) | (160.6) | (79.8) | (1 318.3) |
| Operating costs | (1 389.6) | (202.5) | (64.4) | (1 656.5) |
| Segment operating profit | 737.0 | 91.2 | 4.1 | 832.3 |
| Segment operating margin | 23.0% | 20.1% | 2.8% | 21.9% |
| Segment assets ¹ | 2 671.9 | 341.5 | 69.7 | 3 083.1 |
| Capital expenditure | 72.3 | 3.8 | 0.9 | 77.0 |
| Depreciation | 42.0 | 4.0 | 1.3 | 47.3 |

¹ Segment assets include net instalment sale and loan receivables of R3 335.6 million (2009: R2 855.1 million) and inventory of R210.0 million (2009: R228.0 million).

GEOGRAPHICAL

2010

Revenue

Capital expenditure

2009

Revenue

Capital expenditure

| | South Africa Rm | BLNS (*) Rm | Total Rm |
|---------------------|-----------------|--------------|----------------|
| Revenue | 3 639.9 | 470.7 | 4 110.6 |
| Capital expenditure | 70.0 | 4.0 | 74.0 |
| Revenue | 3 364.0 | 443.1 | 3 807.1 |
| Capital expenditure | 73.1 | 3.9 | 77.0 |

(*) Botswana, Lesotho, Namibia and Swaziland

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

1 SUMMARY OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale assets and financial assets and financial liabilities at fair value through profit and loss.

Preparation of financial statements in conformity with IFRS requires the use of certain accounting estimates. It also requires management to exercise judgement in the process of applying the group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Changes to accounting policies and disclosures arising from the adoption of new standards, amendments and interpretations to standards effective for the current year are disclosed in note 2.

1.2 Basis of consolidation

The consolidated annual financial statements incorporate the financial statements of the company and its subsidiaries. Subsidiaries are entities in which the group has an interest of more than one half of the voting rights or otherwise has the power to govern the financial or operating policies. The results of the subsidiaries are included from the effective date of acquisition to the effective date of disposal. The accounting policies and year-ends of all subsidiaries are consistent throughout the group. Intergroup transactions and balances are eliminated on consolidation.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of the exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the group’s share of the identifiable net assets is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets acquired, the difference is recognised directly in the income statement.

Investments in subsidiaries are carried at cost less any impairment. Employee share trusts are consolidated. Shares in Lewis Group Limited held by subsidiaries and the share trust are classified as treasury shares.

1.3 Goodwill

Goodwill, being the excess of the purchase consideration over the attributable fair value of the identifiable assets and liabilities at the date of acquisition, is initially carried at cost. Goodwill is subject to an annual impairment test and written down to the recoverable amount, where impairment has occurred.

Any excess in the fair value of the identifiable assets and liabilities over the purchase consideration at the date of acquisition is recognised immediately in the income statement.

1.4 Foreign currency translations

1.4.1 Functional and presentation currency

The financial statements of the subsidiaries are measured in the currency of the primary economic environment of the subsidiary (“the functional currency”). The group and company financial statements are presented in South African Rand, the company’s functional currency and the group and company’s presentation currency.

1.4.2 Foreign currency transactions and balances

Transactions in foreign currency are converted at the exchange rate ruling at the transaction date. Monetary assets and liabilities are translated at the rate of exchange ruling at the balance sheet date. Exchange profits and losses arising from the translation of monetary assets and liabilities at balance sheet date or on subsequent settlement of these monetary items are recognised in the income statement in the period in which they arise.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010 CONTINUED

1.4.3 Foreign entities

The assets and liabilities of foreign subsidiaries (excluding loans which are part of the net investment) are translated at the closing rate, while income, expenditure and cash flow items are translated using the average exchange rate. Differences arising on translation are reflected in a foreign currency translation reserve, a separate component of equity. On disposal of a foreign subsidiary, such translation differences are recognised in the income statement as a gain or loss on the sale.

1.5 Financial instruments

1.5.1 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held on call with banks and bank overdrafts. Bank overdrafts are included in short-term interest-bearing borrowings. Cash and cash equivalents are recognised initially at fair value and are subsequently remeasured at amortised cost using the effective interest rate.

1.5.2 Derivative instruments

Derivative instruments are utilised to hedge exposure to foreign currency and interest rate fluctuations. Derivatives are recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Although the derivative instruments entered into by the group provide an effective economic hedge, these derivative instruments have been classified as fair value through profit and loss and, consequently, changes in the fair value are recognised immediately in the income statement.

1.5.3 Financial assets

Investments are classified into three categories, based on the purpose for which the investment was acquired. The classification is determined on initial recognition. Derivative instruments are accounted for in terms of note 1.5.2.

The investments are classified as follows:

- (i) Financial assets designated as fair value through profit and loss. A financial asset is classified as such where the asset is acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets where expected to be realised within twelve months of balance sheet date.
- (ii) Available-for-sale assets are assets acquired with the intention of being held indefinitely or those assets that cannot be classified in any of the other categories of financial instruments. Available-for-sale financial assets are included in non-current assets, unless management intends to dispose of the investment within twelve months of the balance sheet date.
- (iii) Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturities where management has the positive intention and ability to hold to maturity. Held-to-maturity investments are carried at amortised cost using the effective interest rate method. If the group were to sell these assets, the whole category of such assets would be reclassified as available-for-sale.

Purchases and sales of financial assets are recognised on the trade date, being the date that the group commits to the transaction. The financial assets are initially recognised at their fair value with transaction costs being expensed in the income statement in respect of assets classified as fair value through profit and loss and for other categories, added to their carrying value. Assets designated as fair value through profit and loss and as available-for-sale are subsequently carried at fair value and are valued by reference to quoted bid prices at the close of business on the balance sheet date or, where appropriate, by discounted cash flow with maximum use of market inputs.

Realised and unrealised gains and losses arising from a change in the fair value of financial assets classified as fair value through profit and loss are included in the income statement in the period in which they arise. Unrealised gains and losses arising from a change in fair value of available-for-sale investments are recognised in equity. When investments classified as available-for-sale are sold, the accumulated fair value adjustment is included in the income statement as gains and losses on investment.

At each balance sheet date, an assessment is made as to whether there is objective evidence to impair the financial assets. If any such evidence exists for available-for-sale financial assets, the cumulative loss less any impairment previously recognised on the asset is removed from equity and recognised in the income statement.

1.5.4 Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate, less a provision for impairment. The provision for impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Changes in the provision are recognised in the income statement.

1.5.5 Financial liabilities

(i) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(ii) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

1.5.6 Set-off

Financial assets and liabilities are off-set and the net amount reported in the balance sheet only when there is a legally enforceable right to off-set the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.6 Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation. The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are capitalised when it is probable that future economic benefits will arise and the cost can be measured reliably. All other expenditure is recognised through profit and loss.

Assets are depreciated to their residual value, on a straight-line basis, over their estimated useful lives. The estimated useful lives of the assets in years are:

| | |
|-------------------------|---------------|
| Buildings | 50 years |
| Leased equipment | 3 years |
| Furniture and equipment | 3 to 10 years |
| Vehicles | 4 to 6 years |

Land is not depreciated.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds to the carrying amount and are recognised in the income statement.

1.7 Leased assets

Leases of property, plant and equipment, where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lesser of the fair value of the leased assets or the present value of the minimum lease payments. Lease payments are allocated, using the effective interest rate method, between the lease finance cost, which is included in financing costs, and the capital repayment, which reduces the liability to the lessor. Capitalised leased assets are depreciated to their estimated residual value over the shorter of the lease period or their estimated useful lives.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010 CONTINUED

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

1.8 Inventories

Inventory, comprising merchandise held for resale, is valued at the lower of cost or net realisable value. Cost is determined using the weighted average basis, net of trade and settlement discounts. Net realisable value is the estimated selling price in the ordinary course of business, less variable selling expenses. Provision is made for slow moving, redundant and obsolete inventory.

1.9 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, but tested annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount may not be recoverable.

1.10 Current and deferred taxation

The tax expense comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. The group periodically evaluates positions taken in tax returns with respect to situations in which applicable legislation and regulations are subject to interpretation. Appropriate provisions are established on the basis of amounts expected to be paid to the tax authorities.

Deferred taxation, using the liability method, is provided on all temporary differences between the taxation base of an asset or liability and its carrying value. Deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred taxation is calculated at current or substantially enacted rates of taxation at balance sheet date. A deferred tax asset is raised to the extent that it is probable that sufficient taxable profit will arise in the foreseeable future against which the asset can be realised.

1.11 Provisions

A provision is recognised when the group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

1.12 Insurance business

1.12.1 Classification

Insurance contracts are those contracts that transfer significant risk. The group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event in terms of the cover given to the insured.

Contracts entered into by the company with reinsurers under which the group's insurer is compensated for losses on contracts issued by it and that meet the requirements for insurance contracts are classified as reinsurance contracts held. Insurance contracts entered into by the group's insurer under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

1.12.2 Outstanding claims

Provision is made for the estimated final cost of all claims notified but not settled at the accounting date and claims arising from insurance contingencies that occurred before the close of the accounting period, but which had not been reported by that date. Claims and expenses are charged to income as incurred based on the estimated liability for compensation owed to insurance policyholders. The group's own assessors individually assess claims. Outstanding claims provisions are not discounted.

1.12.3 Contingency reserve

A contingency reserve is maintained in terms of the Insurance Act, 1998. Transfers to this reserve are at 10% of premiums written less reinsurance and treated as an appropriation of retained earnings.

1.12.4 Provision for unearned premiums

The provision for unearned premiums and the reinsurer's share of unearned premiums represents that part of the current year's premiums relating to risk periods that extend to the subsequent years. The unearned premiums are calculated on a straight-line basis over the period of the contract.

1.12.5 Reinsurance

Income from reinsurance contracts is deferred over the period of the related reinsurance contract and is recognised as a current liability.

The reinsurer's share of insurance provisions is dependent on the expected claims and benefits arising under the related reinsured insurance contracts and is measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of the reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts.

1.13 Segmental information

Operating segments are reported in a manner consistent with the internal reporting to the chief operating decision makers. The chief operating decision makers, who are responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer and the chief financial officer.

The group has identified its reportable segments based on the chains that it operates. These segments reflect how the group's businesses are managed and reported to the chief operating decision makers. All of the business segments operate in the furniture retail business. The following set out below is a summary of the operations in each of the reportable segments of the group:

(i) Lewis

Lewis sells a range of household furniture, electrical appliances and home electronics to customers in the LSM 4 to 7 categories.

(ii) Best Home and Electric

Best Home and Electric is a retailer of electrical appliances, sound and vision equipment and furniture, targeting the LSM 4 to 7 customer.

(iii) Lifestyle Living

Lifestyle Living is a retailer of stylish and contemporary furniture to customers in the LSM 8 to 10 categories.

Information regarding the performance of each segment is disclosed in the segment report. Performance is measured on the basis of the operating profit (which includes the insurance underwriting result), as management believes that this measure is useful in evaluating the results of the segments, both in relation to each other and in relation to their respective competition. With respect to assets and liabilities, the chief operating decision makers only monitor the trade receivables and inventory for each segment. The remaining assets and the liabilities are reviewed on a group basis.

The group's segments report their segment result and their segment assets (ie. trade receivables and inventory) in accordance with the group's accounting policies. There are no significant intersegmental transactions.

1.14 Current assets and liabilities

Current assets and liabilities have maturity terms of less than 12 months, except for instalment sale and loan receivables. Instalment sale and loan receivables, which are included in trade and other receivables, have maturity terms of between 6 to 36 months but are classified as current as they form part of the normal operating cycle.

1.15 Treasury shares

Where any group company purchases the company's equity share capital (treasury shares), the consideration paid, including the costs attributable to the acquisition, is deducted from the group's equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of transaction costs, is included in the group's equity. The weighted average number of shares is reduced by the treasury shares for earnings per share purposes. Dividends received on treasury shares are eliminated on consolidation.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010 CONTINUED

1.16 Employee benefits

1.16.1 Retirement plans

The group operates a number of defined benefit and defined contribution plans, the assets of which are held in separate trustee-administered funds. These plans are funded by payments from employees and group companies, taking into account the recommendations of independent, qualified actuaries. Pension costs are assessed annually by a qualified actuary, in terms of IAS 19, using the projected unit credit method.

The liability in respect of defined benefit pension plans is the present value of the defined benefit obligations at the balance sheet date minus the fair value of plan assets, together with adjustments for actuarial gains/losses and any past service cost. The present value of the defined benefit obligation is determined by the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability.

To the extent that actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans exceed the greater of 10% of the fund's obligation or plan assets at the end of the previous reporting period, the excess is charged or credited to income over the average remaining service lives of employees. Actuarial surpluses are not accounted for unless the group has a legal right to such surpluses.

The group's contributions to the defined contribution pension plans are charged to the income statement in the year to which they relate and have been included in employment costs.

1.16.2 Post-retirement healthcare costs

The group has an obligation to provide post-retirement medical aid benefits by subsidising medical aid contributions of certain retired employees and ex-gratia pensioners, who joined the group prior to 1 August 1997. The post-retirement healthcare costs are assessed annually by a qualified independent actuary using the projected unit credit method. The cost of providing these subsidies and any actuarial gains and losses are recognised in the income statement immediately. The post-retirement healthcare benefit is measured as the present value of the estimated future cash outflows using an appropriate discount rate.

1.16.3 Share-based payments

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

1.16.4 Leave pay accrual

Employee entitlements to annual leave are recognised as they accrue to employees. An accrual is made for the estimated liability for annual leave as a result of services provided by employees up to the balance sheet date.

1.17 Trading cycle

The group's trading cycle, consistent with prior financial periods, ends on the fifth day after the month being reported on, unless such day falls on a Sunday, in which case it ends on the fourth day.

1.18 Revenue recognition

Revenue is recorded at the fair value of the consideration received or receivable and comprises merchandise sales net of discounts, earned finance charges, earned TV and appliance service contracts, cartage and insurance premiums earned, net of reinsurance premiums paid. Value-added tax is excluded.

(i) Merchandise sales

Revenue from the sale of merchandise is recognised on the date of delivery.

(ii) **Finance charges earned**

For contracts concluded in South Africa, finance charges are recognised by reference to the daily principle outstanding and the effective interest rate implicit in the agreement. For contracts concluded outside South Africa, finance charges are recognised on a sum-of-digits basis which approximates the effective yield basis.

(iii) **Insurance premiums earned**

Insurance premiums are recognised on a straight-line basis over the period of the contract, after an appropriate allowance is made for commission and reinsurance cost.

(iv) **Ancillary services**

Revenue from maintenance contracts is recognised over a 24-month period to ensure a reasonable profit margin. Initiation fees are recognised over the period of the contract on an effective yield basis. Revenue from the provision of other services is recognised when the services are rendered.

(v) **Interest and dividends**

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

2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

2.1 Change in accounting for deferred costs on initiation fees

The group previously deferred costs on the basis that the costs were directly related to the initiation fee earned. An amendment to IAS 18 (Revenue Recognition) replaced the term “direct costs” with “transaction costs” as defined in paragraph 9 of IAS 39. This later definition requires costs to be incremental ie costs that would not have been incurred, had the financial asset not been acquired.

In accordance with the amendment to IAS 18, the group’s accounting policy for deferred costs on initiation fees has been changed. In terms of IAS 8 (Accounting Policies), the relevant comparative information has been restated and the effect on the financial statements is as follows:

| | 2010 | 2009 |
|---|--------------|-------|
| | Rm | Rm |
| Decrease in profit before taxation | 8.8 | 8.0 |
| Decrease in taxation | (2.5) | (2.2) |
| Effect on net profit after taxation | 6.3 | 5.8 |
| Decrease in earnings per share (cents) | 7.2 | 6.6 |
| Decrease in diluted earnings per share (cents) | 7.1 | 6.5 |
| Decrease in opening retained earnings | 39.6 | 33.8 |
| Decrease in property, plant and equipment | 6.1 | 4.6 |
| Decrease in trade and other receivables | 57.6 | 50.3 |
| Decrease in deferred taxation | 17.8 | 15.3 |
| The effect on the 2008 balance sheet is as follows: | | Rm |
| Decrease in opening retained earnings | | – |
| Decrease in property, plant and equipment | | 3.1 |
| Decrease in trade and other receivables | | 43.8 |
| Decrease in deferred taxation | | 13.1 |

2.2 Adoption of Revised IAS 1 (Presentation of Financial Statements)

The presentation of the financial statements has been amended in line with the revised IAS 1 to include a statement of comprehensive income. In addition to net profit, the statement of comprehensive income includes fair value adjustments on insurance investments and movements in the foreign currency translation reserve. These were previously reflected in the statement of changes in equity.

2.3 Adoption of IFRS 8 (Operating Segments)

In terms of IFRS 8 which replaced IAS 14 (Segment Reporting), operating segments are components of the group about which separate financial information is available and evaluated regularly by the chief operating decision makers (identified as the chief executive officer and the chief financial officer) for the purpose of allocating resources and evaluating performance. Accordingly, the group now discloses segmental information for the three brands namely

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010 CONTINUED

Lewis, Best Home and Electric and Lifestyle Living. Previously, the segmental information was presented on the basis of retail, finance and risk segments.

In addition, an amendment to paragraph 23 of IFRS 8 has been adopted which permits disclosure of the assets regularly reported to the chief operating decision makers. Accordingly, segment assets reflect net trade receivables and inventory for each of the brands.

2.4 Adoption of Amendment to IFRS 7 (Disclosures)

The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of this amendment only results in additional disclosure.

The additional disclosures reflect that all quoted insurance investments are in the Level 1 category (ie based on quoted prices in active markets) and the valuation of money market balances and the forward exchange contracts, are in the Level 2 category (ie valued on inputs using observable market data). Refer note 30.

2.5 Other standards, interpretations, revisions and amendments effective for the current year

The following revisions and amendments to standards and interpretations have become effective for the current financial reporting year, but have had no material impact on the group's results, financial position or disclosure:

IFRS 2: Share-based payment (amendments effective 1 January 2009)

AC 504: The limit on a defined benefit asset, minimum funding requirements and their interaction in the South African pension fund environment

Annual improvements to IFRS issued May 2008 for amendments effective 1 January 2009

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the preparation of the financial statements, the following key estimates were made in determining the assets and liabilities of the group:

3.1 Impairment of receivables

A discounted cash flow model using the contractual interest rate on the expected future collections from customers is applied. The cash flows are calculated using the payment ratings of customers at the balance sheet date. Payment ratings assess the customers' actual payment pattern as compared to the contractual payments. Customer payment ratings are affected by the overall economic and credit environment such as the levels of employment and interest rates and, consequently, the impairment provision will be dependent on the changing financial circumstances of our customers.

3.2 Bad debts

Customer accounts are written off once it is assessed that the customer is no longer in a position to service the account.

3.3 Share-based payment

The share-based payment was valued in terms of an option pricing model. Details of the option pricing model and the assumptions used are detailed in note 18.2.

3.4 Normal and deferred taxation

The tax and deferred tax liabilities and assets are calculated using considered interpretations of the tax laws of the jurisdictions in which the group operates.

3.5 Retirement benefits

The underlying actuarial assumptions are set out in note 13.

3.6 Useful lives and residual values of fixed assets

The estimated useful lives and residual values are reviewed annually taking cognisance of historical trends for that class of asset and the commercial and economic realities at the time.

GROUP

| | Land and buildings Rm | Leased equipment Rm | Vehicles and fixtures Rm | Total Rm |
|--|-----------------------------|---------------------------|--------------------------------|----------------|
| 4 PROPERTY, PLANT AND EQUIPMENT | | | | |
| AS AT 31 MARCH 2010 | | | | |
| Opening net carrying value | 110.9 | – | 114.2 | 225.1 |
| Additions | 7.2 | – | 66.8 | 74.0 |
| Disposals | – | – | (1.7) | (1.7) |
| Depreciation | (1.1) | – | (45.2) | (46.3) |
| Closing net carrying value | 117.0 | – | 134.1 | 251.1 |
| Cost | 123.7 | – | 402.6 | 526.3 |
| Accumulated depreciation | (6.7) | – | (268.5) | (275.2) |
| AS AT 31 MARCH 2009 (RESTATED) | | | | |
| Opening net carrying value | 84.2 | – | 113.3 | 197.5 |
| Additions | 27.7 | – | 49.3 | 77.0 |
| Disposals | – | – | (2.1) | (2.1) |
| Depreciation | (1.0) | – | (46.3) | (47.3) |
| Closing net carrying value | 110.9 | – | 114.2 | 225.1 |
| Cost | 116.5 | 14.9 | 361.6 | 493.0 |
| Accumulated depreciation | (5.6) | (14.9) | (247.4) | (267.9) |

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010 CONTINUED

| | | GROUP | |
|---|--|---------------|------------|
| | | 2010 Rm | 2009 Rm |
| 5 INVESTMENTS – INSURANCE BUSINESS | | | |
| <i>Listed investments</i> | | | |
| Listed shares – available-for-sale | | 308.1 | 183.8 |
| Fixed income securities – available-for-sale | | 407.9 | 351.3 |
| <i>Unlisted investments</i> | | | |
| Money market – available-for-sale | | 178.1 | 199.1 |
| | | 894.1 | 734.2 |
| <i>Analysed as follows</i> | | | |
| Non-current | | 716.0 | 535.1 |
| Current | | 178.1 | 199.1 |
| | | 894.1 | 734.2 |
| MOVEMENT FOR THE YEAR | | | |
| Beginning of the year | | 734.2 | 664.9 |
| Net additions to investments | | 84.1 | 114.3 |
| Movement in fair value transferred to equity | | 75.8 | (45.0) |
| End of the year | | 894.1 | 734.2 |
| A register of listed investments is available for inspection at the company's registered office. Regular purchases and sales of financial assets are accounted for on the trade date. | | | |
| 6 INVENTORIES | | | |
| Cost of merchandise | | 235.0 | 251.8 |
| Less: provision for obsolescence | | (25.0) | (23.8) |
| | | 210.0 | 228.0 |

| | GROUP | |
|---|------------------|------------|
| | 2010 Rm | 2009 Rm |
| 7 TRADE AND OTHER RECEIVABLES | | |
| Instalment sale and loan receivables | 4 705.2 | 4 007.2 |
| Provision for unearned finance charges and unearned maintenance income | (207.5) | (181.1) |
| Provision for unearned initiation fees | (88.5) | (78.3) |
| Provision for unearned insurance premiums | (438.2) | (360.0) |
| Unearned insurance premiums | (722.5) | (598.1) |
| Less: reinsurer's share of unearned premiums | 284.3 | 238.1 |
| Net instalment sale and loan receivables | 3 971.0 | 3 387.8 |
| Provision for impairment | (635.4) | (532.7) |
| | 3 335.6 | 2 855.1 |
| Other receivables | 92.0 | 38.3 |
| | 3 427.6 | 2 893.4 |
| Amounts due from instalment sale and loan receivables after one year are reflected as current, as they form part of the normal operating cycle. The credit terms of instalment sale and loan receivables range from 6 to 36 months. | | |
| 8 SHARE CAPITAL AND PREMIUM | | |
| 8.1 Share capital and premium | | |
| Share capital | 1.0 | 1.0 |
| Share premium | 2 710.6 | 2 710.6 |
| Reverse acquisition reserve | (2 123.1) | (2 123.1) |
| | 588.5 | 588.5 |
| Treasury shares: | | |
| Lewis Stores (Pty) Ltd | (477.8) | (477.8) |
| Lewis Employee Share Incentive Scheme Trust | (17.2) | (12.9) |
| Total share capital and premium | 93.5 | 97.8 |

The average market price paid for the shares repurchased by the company and the treasury shares held by Lewis Stores (Proprietary) Limited was R50.45, with the lowest price being R32.99 and the highest R65.90.

On listing, Lewis Group Limited ("Lewis Group") acquired the total shareholding of Lewis Stores (Proprietary) Limited ("Lewis Stores") through issuing shares to the shareholder at that date. In terms of IFRS 3 requirements for reverse acquisitions, Lewis Stores was the acquirer and Lewis Group the acquiree, although Lewis Group is the holding company and Lewis Stores the subsidiary. The group financial statements were in substance a continuation of the operations of Lewis Stores from the date that the reverse acquisition took place.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010 CONTINUED

GROUP

8 SHARE CAPITAL AND PREMIUM (CONTINUED)

8.2 Number of ordinary shares in issue

| | 2010 000's | 2009 000's |
|---|-----------------------------|---------------|
| Number of shares issued | 98 058 | 98 058 |
| Treasury shares held by: | | |
| Lewis Stores (Proprietary) Limited | (9 217) | (9 217) |
| Lewis Employee Share Incentive Scheme Trust | (811) | (1 021) |
| Number of shares in issue | 88 030 | 87 820 |

9 OTHER RESERVES

Comprising:

| | Rm | Rm |
|---|---------------|--------|
| Fair value reserve | 121.5 | 55.7 |
| Foreign currency translation reserve | (18.3) | (10.9) |
| Share-based payment reserve | 18.2 | 18.8 |
| Other | 0.8 | 0.8 |
| | 122.2 | 64.4 |
| Statutory insurance contingency reserve | 49.1 | 43.0 |
| | 171.3 | 107.4 |

Detailed movements in the other reserves are disclosed in the statement of changes in equity.

10 RETAINED EARNINGS

Comprising:

| | | |
|--------------------------------------|----------------|---------|
| Company | 83.0 | 83.6 |
| Consolidated subsidiaries (restated) | 2 925.9 | 2 611.5 |
| | 3 008.9 | 2 695.1 |

Distribution of all reserves by South African subsidiaries would give rise to STC of R251.6 million (2009: R231.6 million).

Distribution by certain foreign subsidiaries will give rise to withholding taxes of R33.4 million (2009: R30.5 million).

No provision for STC and withholding taxes is raised until dividends are declared.

GROUP

11 INTEREST-BEARING BORROWINGS

The group has the following long-term borrowings:

| Maturity date | Interest rate | 2010 Rm | 2009 Rm |
|---------------|-------------------------------------|--------------|------------|
| August 2011 | 3 month JIBAR plus 165 basis points | 100.0 | 100.0 |
| October 2011 | 3 month JIBAR plus 300 basis points | 50.0 | – |
| July 2012 | 3 month JIBAR plus 180 basis points | 200.0 | – |
| | | 350.0 | 100.0 |

12 DEFERRED TAXATION

Balance at the beginning of the year (restated)

37.7 1.3

Movement for the year attributable to:

Income statement credit 23.8 43.8

Deferred tax on fair value adjustment in equity 10.0 (7.4)

BALANCE AT THE END OF THE YEAR 71.5 37.7

This balance comprises:

Capital allowances 35.2 20.9

Debtors allowances 96.2 59.7

Income and expense recognition (1.4) (1.7)

Other provisions (58.5) (41.2)

BALANCE AT THE END OF THE YEAR 71.5 37.7

Disclosed as:

DEFERRED TAX ASSET (13.0) –

DEFERRED TAX LIABILITY 84.5 37.7

71.5 37.7

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010 CONTINUED

| | | GROUP | |
|--|--|--------------------------------|-------------------------|
| | | 2010 Rm | 2009 Rm |
| 13 RETIREMENT BENEFITS | | | |
| AMOUNTS RECOGNISED IN THE BALANCE SHEET | | | |
| Defined benefit retirement plan liability | | 8.0 | 11.2 |
| Post-retirement healthcare benefits | | 43.8 | 42.7 |
| | | 51.8 | 53.9 |
| RETIREMENT PLANS | | | |
| <p>The group operates a number of retirement funds, all of which are held separate from the group's assets. There are three defined contribution funds, namely the Lewis Stores Provident Fund; the Lewis Stores Namibia Provident Fund for Namibian employees; and the SACCAWU Provident Fund for employees belonging to SACCAWU Trade Union. In addition, there are two defined benefit funds, namely the Lewis Stores Group Pension Fund which was closed to new members on 1 July 1997; and the Lewis Stores Retirement Fund for executive management. Both defined benefit plans are registered under the Pension Funds Act No. 24 of 1956.</p> | | | |
| <p>The number of employees on these plans are as follows:</p> | | | |
| Lewis Group Pension Fund | | No. of employees 243 | No. of employees 273 |
| Lewis Stores Retirement Pension Fund | | 32 | 32 |
| SACCAWU Provident Fund | | 767 | 640 |
| Lewis Stores Provident Fund | | 3 342 | 3 074 |
| Lewis Stores Namibia Provident Fund | | 135 | 124 |
| DEFINED BENEFIT PLANS | | | |
| <p>The defined benefit funds are final salary defined benefit plans. These schemes are valued by an independent actuary on an annual basis in terms of IAS 19 using the projected unit credit method. The latest valuation was carried out as at 1 January 2010.</p> | | | |
| | | 2010 Rm | 2009 Rm |
| AMOUNTS RECOGNISED IN THE BALANCE SHEET | | | |
| Present value of obligations | | 325.9 | 331.0 |
| Fair value of plan assets | | (325.0) | (324.6) |
| | | 0.9 | 6.4 |
| Unrecognised actuarial gains | | 7.1 | 4.8 |
| Defined benefit retirement plan liability | | 8.0 | 11.2 |
| AMOUNTS RECOGNISED IN THE INCOME STATEMENT | | | |
| Current service cost | | 11.0 | 11.4 |
| Interest cost | | 27.1 | 28.8 |
| Expected return on plan assets | | (29.8) | (35.1) |
| Past service cost | | 4.0 | – |
| Net actuarial losses recognised in the year | | 1.4 | 2.5 |
| Total included in staff costs | | 13.7 | 7.6 |

| | GROUP | |
|---|-------------------|------------|
| | 2010 Rm | 2009 Rm |
| 13 RETIREMENT BENEFITS (CONTINUED) | | |
| MOVEMENT IN RETIREMENT BENEFIT LIABILITY | | |
| Present value at the beginning of the year | 11.2 | 16.9 |
| Income statement charge | 13.7 | 7.6 |
| Contributions paid during the year | (16.9) | (13.3) |
| Present value at the end of the year | 8.0 | 11.2 |
| PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS | | |
| Beginning of year | 331.0 | 345.8 |
| Current service cost | 11.0 | 11.4 |
| Interest cost | 27.1 | 28.8 |
| Employee contributions | 1.6 | 1.7 |
| Benefit payments | (71.5) | (36.6) |
| Actuarial loss/(gain) | 26.7 | (20.1) |
| End of year | 325.9 | 331.0 |
| FAIR VALUE OF DEFINED BENEFIT PLAN ASSETS | | |
| Beginning of year | 324.6 | 362.1 |
| Employee contributions | 1.6 | 1.7 |
| Employer contributions | 16.7 | 13.1 |
| Expected return | 29.8 | 35.1 |
| Benefit payments | (71.5) | (36.6) |
| Actuarial gain/(loss) | 23.8 | (50.8) |
| End of year | 325.0 | 324.6 |
| PRINCIPAL ACTUARIAL ASSUMPTIONS USED WERE AS FOLLOWS: | | |
| Discount rate | 9.00% | 9.00% |
| Expected return on plan assets | 10.00% | 10.00% |
| Inflation rate | 6.00% | 6.00% |
| Future salary increases | 7.00% | 7.00% |
| Future pension increases | 6.50% | 6.50% |
| Assumptions regarding future mortality experience are based on advice, published statistics and experience. The average life expectancy in years of a pensioner retiring at age 65 on valuation date is as follows: | | |
| Male | 13.6 years | 13.7 years |
| Female | 15.6 years | 15.7 years |
| Actual return on plan assets | 18.3% | (5.4%) |

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

The expected return on plan assets (net of tax) is obtained by applying the expected long-term rate of return (net of tax) on plan assets to the fair value of plan assets.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010 CONTINUED

GROUP

13 RETIREMENT BENEFITS (CONTINUED)

PLAN ASSETS

The major categories of plan assets as a percentage of the fair value of the total plan assets are as follows:

| | 2010 % | 2009 % |
|----------------------|--------------|-----------|
| Cash | 17.2 | 22.9 |
| Bonds | 17.5 | 12.7 |
| Equity | 46.6 | 49.1 |
| International equity | 15.0 | 9.4 |
| Property | 2.9 | 3.7 |
| Other | 0.8 | 2.2 |
| | 100.0 | 100.0 |

TRENDS

| | Obligation Rm | Experience adjustments' gain/(loss) | |
|------|------------------|--|---------------------------|
| | | Plan assets Rm | Plan liabilities Rm |
| 2010 | 325.9 | 23.8 | (26.7) |
| 2009 | 331.0 | (50.8) | 20.1 |
| 2008 | 345.8 | 24.4 | (22.3) |
| 2007 | 303.2 | 35.4 | (22.8) |
| 2006 | 269.9 | 24.6 | (18.8) |
| 2005 | 242.5 | 11.3 | (24.0) |

DEFINED CONTRIBUTION PLANS

For defined contribution plans, the group pays contributions to the funds on a contractual basis. Once the contributions have been paid, the group has no further payment obligations.

Defined contribution plan costs

| 2010 Rm | 2009 Rm |
|-------------|------------|
| 21.6 | 18.8 |

POST-RETIREMENT HEALTHCARE BENEFITS

The group provides a subsidy of medical aid contributions to retired employees. Only those employees employed prior to 1 August 1997 qualify for this benefit. The liability was valued as at 31 March 2010 by a qualified actuary in accordance with the requirements of IAS 19. The group has a commitment to meet these unfunded benefits.

| | GROUP | |
|--|--------------|------------------------------------|
| | 2010 Rm | 2009 Rm |
| 13 RETIREMENT BENEFITS (CONTINUED) | | |
| AMOUNTS RECOGNISED IN THE INCOME STATEMENT | | |
| Current service cost | 0.9 | 0.9 |
| Interest cost | 3.5 | 3.3 |
| Actuarial gain | (1.3) | (0.4) |
| Income statement charge | 3.1 | 3.8 |
| MOVEMENT IN POST-RETIREMENT HEALTHCARE LIABILITY | | |
| Present value of liability at the beginning of the year | 42.7 | 40.8 |
| Charged to income statement | 3.1 | 3.8 |
| Employer benefit payments | (2.0) | (1.9) |
| Post-retirement healthcare benefits liability | 43.8 | 42.7 |
| PRESENT VALUE OF POST-RETIREMENT HEALTHCARE OBLIGATIONS | | |
| Beginning of year | 42.7 | 40.8 |
| Current service cost | 0.9 | 0.9 |
| Interest cost | 3.5 | 3.3 |
| Benefit payments | (2.0) | (1.9) |
| Actuarial gain | (1.3) | (0.4) |
| End of year | 43.8 | 42.7 |
| PRINCIPAL ACTUARIAL ASSUMPTIONS USED WERE AS FOLLOWS: | | |
| Healthcare inflation rate | 5.75% | 5.75% |
| CPI inflation | 5.25% | 5.75% |
| Discount rate | 9.00% | 9.00% |
| Average retirement age (years) | 63 | 63 |
| SENSITIVITY | | |
| The effects of a 1% movement in the assumed medical aid inflation rate were as follows: | Increase | Decrease |
| Effect on aggregate of the current service and interest cost | 0.7 | (0.6) |
| Effect on defined benefit obligation | 5.7 | (4.7) |
| TRENDS | | |
| The trends of the present value of the obligation and experience adjustments are as follows: | Obligation | Experience adjustments gain/(loss) |
| 2010 | 43.8 | 1.1 |
| 2009 | 42.7 | 0.2 |
| 2008 | 40.8 | 0.2 |
| 2007 | 40.5 | 2.4 |
| 2006 | 41.2 | 4.9 |
| 2005 | 34.7 | (2.7) |

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010 CONTINUED

| | | GROUP | |
|---|--|----------------|------------|
| | | 2010 Rm | 2009 Rm |
| 14 TRADE AND OTHER PAYABLES | | | |
| Trade payables | | 64.1 | 84.8 |
| Accruals and other payables | | 134.4 | 142.9 |
| Due to reinsurers | | 121.1 | 105.3 |
| Insurance provisions | | 130.4 | 71.1 |
| | | 450.0 | 404.1 |
| 15 SHORT-TERM INTEREST-BEARING BORROWINGS | | | |
| These borrowings are unsecured. The average closing interest rate on these borrowings was 9.00% (2009: 12.08%). | | | |
| | | 611.4 | 637.0 |
| | | 611.4 | 637.0 |
| 16 INSURANCE PREMIUMS EARNED | | | |
| Gross insurance premiums | | 732.6 | 645.8 |
| Reinsurance commission | | 183.2 | 197.3 |
| Reinsurance premiums | | (299.8) | (261.7) |
| | | 616.0 | 581.4 |
| 17 COST OF MERCHANDISE SALES | | | |
| Purchases | | 1 312.6 | 1 315.9 |
| Movement in inventory | | 18.0 | 2.4 |
| Cost of merchandise sales | | 1 330.6 | 1 318.3 |
| Merchandise gross profit | | 714.9 | 601.6 |

| | | GROUP | |
|---|--|--------------|------------|
| | | 2010 Rm | 2009 Rm |
| 18 DIRECTORS AND EMPLOYEES | | | |
| 18.1 Employment costs | | | |
| Salaries, wages, commissions and bonuses | | 550.4 | 497.5 |
| Retirement benefit costs | | 38.4 | 30.2 |
| Share-based payments | | 10.9 | 10.6 |
| Other employment costs | | 7.7 | 3.7 |
| | | 607.4 | 542.0 |
| 18.2 Share-based payments | | | |
| As the fair value of the services received cannot be measured reliably, the services have been valued by reference to the fair value of shares and options granted. The fair value of such options and shares is measured at the grant date using the Black-Scholes model. | | | |
| In terms of IFRS 2, share-based payments are required to be expensed over the vesting period. Any accelerated vesting of the awards and options requires immediate recognition of the unrecognised portion. | | | |
| VALUE OF SERVICES PROVIDED: | | | |
| In respect of share awards and options granted subsequent to date of listing (refer note 18.3) | | | |
| | | 10.9 | 10.6 |
| | | R | R |
| Significant assumptions used were: | | | |
| Weighted average share price | | 50.85 | 47.52 |
| Weighted average expected volatility | | 63.1% | 48.7% |
| Weighted average expected dividend yield | | 6.5% | 6.5% |
| Weighted average risk-free rate (bond yield curve at date of grant) | | 8.6% | 9.7% |
| 18.3 Share incentive schemes | | | |
| The employee share incentive schemes are in operation for employees, executives and directors holding salaried employment office. The aggregate number of shares which may be utilised for these schemes shall not exceed 10% of the issued share capital of the company. | | | |
| LEWIS ALL EMPLOYEE SHARE SCHEME | | | |
| In terms of the rules of the share scheme, participants are granted an award to receive shares for no consideration. Participants will only receive their share award if they remain in the employ of the group until vesting date. Share awards under this scheme usually vest between two and four years. | | | |
| No. of shares and options | | | |
| Beginning of year | | 6 080 | – |
| Granted | | – | 6 080 |
| Forfeited | | – | – |
| Vested and exercised by payment of consideration | | – | – |
| End of year | | 6 080 | 6 080 |

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010 CONTINUED

GROUP

18 DIRECTORS AND EMPLOYEES CONTINUED

18.3 Share incentive schemes continued

LEWIS EXECUTIVE PERFORMANCE SCHEME

In terms of the scheme, senior executives have been offered the right to acquire shares of the group for no consideration subject to the achievement of performance targets. The shares will vest after three years and is conditional upon the executive still being in the employ of the company other than in the event of death, ill health, retirement or retrenchment.

The performance targets are set by the Remuneration and Nomination Committee and are approved by the board. These targets will be set at the beginning of each of the three years and a proportionate number of the shares granted will be allocated to each year.

No performance shares will accrue if the group achieves less than 90% of target. Any achievement between 90% and 100% of target will result in a proportionate accrual of shares weighted towards 100% of target.

| | | |
|-------------------|------------------|---------|
| Beginning of year | 572 971 | 294 312 |
| Granted | 890 303 | 287 747 |
| Forfeited | (82 201) | (5 333) |
| Vested | (139 957) | (3 755) |
| End of year | 1 241 116 | 572 971 |

LEWIS CO-INVESTMENT SCHEME

Senior executives are eligible for an annual bonus based on achievement of performance targets. These eligible executives can elect to invest all or part of their net bonus in the group's shares ("invested shares").

These shares are deferred for three years and matching shares equal to the before tax bonus are awarded for no consideration at the end of the period. The matching share award will lapse should the executive terminate his or her employment before the completion of the three-year period other than in the event of death, ill health, retirement or retrenchment.

The grant in respect of the matching share option is as follows:

| | | |
|-------------------|------------------|---------|
| Beginning of year | 217 535 | 167 321 |
| Granted | 49 582 | 50 214 |
| Forfeited | - | - |
| Vested | (128 198) | - |
| End of year | 138 919 | 217 535 |

Invested shares paid for through the investment of executives' net bonuses amounted to 83 350 shares (2009: 130 518 shares). These shares are held by the Trust on the executives' behalf.

GROUP

18 DIRECTORS AND EMPLOYEES CONTINUED

18.4 Directors' emoluments

NON-EXECUTIVE DIRECTORS – FEES AS DIRECTORS

| | | |
|---------------------------------|---------|---------|
| D M Nurek | 576 000 | 533 000 |
| H Saven | 407 000 | 372 000 |
| B van der Ross | 295 000 | 273 000 |
| F Abrahams | 295 000 | 273 000 |
| M S P Marutlulle ⁽¹⁾ | 89 000 | – |
| Z Bassa ⁽¹⁾ | 128 000 | – |
| A J Smart ⁽¹⁾ | 109 000 | – |

| | |
|------------------|------------------|
| 1 899 000 | 1 451 000 |
|------------------|------------------|

⁽¹⁾ M S P Marutlulle and Z Bassa were appointed as directors on 1 October 2009 and A J Smart became a non-executive director on 1 October 2009.

EXECUTIVE DIRECTOR – A J SMART (PAID BY SUBSIDIARY)

| | | |
|---------------------------------|-----------|-----------|
| Salary | 1 324 740 | 2 440 000 |
| Bonuses paid during the year | 1 098 000 | 1 120 000 |
| Contributions to pension scheme | 211 958 | 390 400 |
| Contribution to medical aid | 25 404 | 46 488 |
| Other material benefits | 99 200 | 158 400 |
| Gains on share awards | 5 178 480 | – |

| | |
|------------------|------------------|
| 7 937 782 | 4 155 288 |
|------------------|------------------|

EXECUTIVE DIRECTOR – J ENSLIN (PAID BY SUBSIDIARY)⁽²⁾

| | | |
|---------------------------------|-----------|-----|
| Salary | 1 857 312 | n/a |
| Bonuses paid during the year | 675 000 | n/a |
| Contributions to pension scheme | 297 170 | n/a |
| Contribution to medical aid | 62 538 | n/a |
| Other material benefits | 53 394 | n/a |
| Gains on share awards | 1 360 656 | n/a |

| | |
|------------------|------------|
| 4 306 070 | n/a |
|------------------|------------|

⁽²⁾ The above remuneration is for the whole year, although J Enslin was only appointed on 1 October 2009.

EXECUTIVE DIRECTOR – L A DAVIES (PAID BY SUBSIDIARY)

| | | |
|---------------------------------|-----------|-----------|
| Salary | 1 677 864 | 1 283 335 |
| Bonuses paid during the year | 630 000 | 550 000 |
| Contributions to pension scheme | 268 458 | 205 333 |
| Contribution to medical aid | 75 486 | 66 289 |
| Other material benefits | – | 172 320 |
| Gains on share awards | 1 433 952 | – |

| | |
|------------------|------------------|
| 4 085 760 | 2 277 277 |
|------------------|------------------|

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2010 CONTINUED

| | GROUP | |
|---|--------------|-----------|
| | 2010 R | 2009 R |
| 18 DIRECTORS AND EMPLOYEES CONTINUED | | |
| 18.4 Directors' emoluments continued | | |
| GAINS ON SHARE AWARDS – EXECUTIVE DIRECTORS | | |
| A J Smart | | |
| Share awards vested | 102 759 | – |
| Offer date | 30 June 2006 | – |
| | 19 June 2007 | |
| Date vested | 30 June 2009 | – |
| | 22 Sept 2009 | |
| Exercise price | – | – |
| Exercise cost | – | – |
| Sale proceeds | 5 178 480 | – |
| Gain | 5 178 480 | – |
| J Enslin | | |
| Share awards vested | 28 347 | n/a |
| Offer date | 30 June 2006 | n/a |
| Date vested | 30 June 2009 | n/a |
| Exercise price | – | n/a |
| Exercise cost | – | n/a |
| Sale proceeds | 1 360 656 | n/a |
| Gain | 1 360 656 | n/a |
| L A Davies | | |
| Share awards vested | 29 874 | – |
| Offer date | 30 June 2006 | – |
| Date vested | 30 June 2009 | – |
| Exercise price | – | – |
| Exercise cost | – | – |
| Sale proceeds | 1 433 952 | – |
| Gain | 1 433 952 | – |

| | | GROUP | |
|---|----------------|-----------------------|------|
| | | 2010 | 2009 |
| | | No. of shares/options | |
| 18 DIRECTORS AND EMPLOYEES CONTINUED | | | |
| 18.4 Directors' emoluments continued | | | |
| OUTSTANDING SHARE AWARDS AND OPTIONS – EXECUTIVE DIRECTORS | | | |
| Share awards under Lewis Executive Performance Scheme granted (refer note 18.3): | | | |
| Granted on 30 June 2006: | | | |
| A J Smart | – | 44 753 | |
| L A Davies | – | 22 287 | |
| Granted on 11 June 2007: | | | |
| A J Smart | 34 718 | 34 718 | |
| J Enslin | 17 049 | n/a | |
| L A Davies | 17 049 | 17 049 | |
| Granted on 24 June 2008: | | | |
| J Enslin | 35 057 | n/a | |
| L A Davies | 35 057 | 35 057 | |
| Granted on 10 June 2009: | | | |
| J Enslin | 34 669 | | |
| L A Davies | 34 782 | | |
| Granted on 17 September 2009: | | | |
| J Enslin | 120 000 | | |
| L A Davies | 80 000 | | |
| Matching share options under Lewis Co-Investment Scheme (refer note 18.3): | | | |
| Granted on 30 June 2006: | | | |
| A J Smart | – | 36 344 | |
| J Enslin | – | n/a | |
| L A Davies | – | 12 044 | |
| Granted on 19 June 2007: | | | |
| A J Smart | – | 30 756 | |
| J Enslin | 15 379 | n/a | |
| L A Davies | 13 840 | 13 840 | |
| Granted on 24 June 2008: | | | |
| J Enslin | 16 345 | n/a | |
| L A Davies | 16 345 | 16 345 | |
| Granted on 10 June 2009: | | | |
| J Enslin | 13 924 | | |
| L A Davies | 12 995 | | |
| The Trust holds 53 296 shares (2009: 65 596 shares) on their behalf by virtue of the investment of their bonuses into the scheme. | | | |
| | | Rm | Rm |
| 18.5 Remuneration of key executives | | | |
| Salary | 8.8 | 9.0 | |
| Bonus | 3.6 | 3.5 | |
| Retirement and medical contributions | 1.8 | 1.4 | |
| Other benefits | 0.5 | 1.3 | |
| Gains on share awards vested | 9.5 | – | |
| | | 24.2 | 15.2 |

Key executives comprise the directors of Lewis Stores (Proprietary) Limited, the main operating subsidiary.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010 CONTINUED

| | GROUP | |
|---|--------------|------------|
| | 2010 Rm | 2009 Rm |
| 19 DEBTOR COSTS | | |
| Bad debts, repossession losses and bad debt recoveries | 331.5 | 201.9 |
| Movement in doubtful debts provision | 102.7 | 136.9 |
| | 434.2 | 338.8 |
| 20 LEASE COMMITMENTS | | |
| The group leases the majority of its properties under operating leases. The lease agreements of certain store premises provide for a minimum annual rental payment and additional payments determined on the basis of turnover. | | |
| Payments on a cash flow basis: | | |
| Within one year | 101.5 | 96.3 |
| Two to five years | 150.9 | 181.5 |
| Over five years | – | – |
| | 252.4 | 277.8 |
| Payments on a straight line basis: | | |
| Within one year | 98.2 | 95.0 |
| Two to five years | 137.8 | 166.5 |
| Over five years | – | – |
| | 236.0 | 261.5 |
| 21 OPERATING PROFIT IS STATED AFTER | | |
| INITIATION AND SERVICE FEES ON ACCOUNTS RECEIVABLE | 268.2 | 185.1 |
| SURPLUS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT | 6.5 | 3.6 |
| DEPRECIATION | | |
| Owned assets | 46.3 | 47.3 |
| Leased assets | – | – |
| | 46.3 | 47.3 |
| FEES PAYABLE: | | |
| Investment management fee – insurance investments | 2.3 | 2.0 |
| Outsourcing of IT function | 31.9 | 33.5 |
| | 34.2 | 35.5 |
| OPERATING LEASES | | |
| Operating lease payments on a cash flow basis | 129.2 | 118.2 |
| Lease adjustment | 0.2 | 2.7 |
| Operating leases on a straight-line basis | 129.4 | 120.9 |
| AUDITORS' REMUNERATION | | |
| Audit fees – current year | 1.6 | 1.4 |
| – prior year underprovision | 0.1 | 0.2 |
| Other services | 0.5 | 0.4 |
| | 2.2 | 2.0 |

| | | GROUP | |
|--|--|--------------|-----------|
| | | 2010 R | 2009 R |
| 22 INVESTMENT INCOME | | | |
| Interest – insurance business | | 48.2 | 55.3 |
| Dividends from listed investments – insurance business | | 5.7 | 19.0 |
| Realised profit on disposal of insurance investments | | 23.6 | 2.6 |
| | | 77.5 | 76.9 |
| 23 NET FINANCE COSTS | | | |
| 23.1 Interest paid | | | |
| Bank loans and overdrafts | | 79.7 | 105.4 |
| Other | | 15.0 | 3.1 |
| | | 94.7 | 108.5 |
| 23.2 Interest received | | | |
| Bank | | (3.6) | (10.5) |
| Other | | (2.4) | (1.0) |
| | | (6.0) | (11.5) |
| 23.3 Forward exchange contracts | | | |
| Realised | | 30.4 | 1.7 |
| Unrealised | | 2.1 | (12.2) |
| | | 32.5 | (10.5) |
| 23.4 Net finance costs | | | |
| | | 121.2 | 86.5 |

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010 CONTINUED

| | GROUP | |
|--|--------------|-----------|
| | 2010 R | 2009 R |
| 24 TAXATION | | |
| 24.1 Taxation charge | | |
| South Africa | 243.5 | 241.8 |
| Foreign | 28.6 | 19.7 |
| Taxation per income statement | 272.1 | 261.5 |
| Comprising: | | |
| Normal taxation | | |
| Current year | 223.5 | 194.8 |
| Prior year | (0.5) | (5.5) |
| Deferred taxation | | |
| Current year | 23.9 | 37.9 |
| Prior year | - | 5.9 |
| Rate change | - | - |
| Secondary tax on companies | 25.2 | 28.4 |
| Taxation per income statement | 272.1 | 261.5 |
| 24.2 The rate of taxation on profit is reconciled as follows: | | |
| Profit before taxation | 863.5 | 822.7 |
| Taxation calculated at a tax rate of 28% (2009: 28%) | 241.8 | 230.4 |
| Disallowed expenditure/(exempt income) | 1.6 | 0.2 |
| Secondary tax on companies | 25.2 | 28.4 |
| Prior years | (0.5) | 0.4 |
| Differing tax rates in foreign countries | 4.0 | 2.1 |
| Taxation per income statement | 272.1 | 261.5 |
| Effective taxation rate | 31.5% | 31.8% |

| | | GROUP | |
|---|--|---------------|---------------|
| | | 2010 000's | 2009 000's |
| 25 EARNINGS PER SHARE | | | |
| 25.1 Weighted average number of shares | | | |
| Weighted average shares for earnings and headline earnings per share | | 88 002 | 88 209 |
| Dilution resulting from share awards outstanding | | 328 | 424 |
| Weighted average shares for diluted earnings and headline earnings per share | | 88 330 | 88 633 |
| Diluted earnings and headline earnings per share is calculated by adjusting the weighted average number of ordinary shares assuming that all share options will be exercised. The dilution is determined by the number of shares that could have been acquired at fair value (determined as the average annual market price of the shares) less the number of shares that would be issued on the exercise of all the share options. | | | |
| 25.2 Headline earnings | | | |
| Attributable earnings | | Rm | Rm |
| | | 591.4 | 561.2 |
| Profit on disposal of property, plant and equipment | | (6.5) | (3.6) |
| Profit on disposal of available-for-sale investments | | (23.6) | (2.6) |
| Tax effect | | 4.2 | 1.2 |
| Headline earnings | | 565.5 | 556.2 |
| 25.3 Earnings per share | | | |
| Earnings per share | | Cents | Cents |
| | | 672.0 | 636.2 |
| Diluted earnings per share | | 669.5 | 633.2 |
| 25.4 Headline earnings per share | | | |
| Headline earnings per share | | 642.6 | 630.5 |
| Diluted headline earnings per share | | 640.2 | 627.5 |
| 26 DIVIDENDS PAID | | | |
| Dividend No. 8 declared on 19 May 2008 and paid on 28 July 2008 | | | 176.0 |
| Dividend No. 9 declared on 10 November 2008 and paid on 26 January 2009 | | | 141.2 |
| Dividend No. 10 declared on 18 May 2009 and paid on 27 July 2009 | | 175.5 | |
| Dividend No. 11 declared on 9 November 2009 and paid on 25 January 2010 | | 141.2 | |
| Dividends received on treasury shares: | | | |
| Lewis Stores (Proprietary) Limited | | (29.7) | (29.7) |
| Lewis Employee Share Incentive Scheme Trust | | (2.6) | (3.2) |
| | | 284.4 | 284.3 |

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010 CONTINUED

| | GROUP | |
|--|----------------|------------|
| | 2010 Rm | 2009 Rm |
| 27 NOTES TO THE CASH FLOW STATEMENTS | | |
| 27.1 Cash generated from operations | | |
| Operating profit | 907.2 | 832.3 |
| <i>Adjusted for:</i> | | |
| Share-based payments | 10.9 | 10.6 |
| Depreciation | 46.3 | 47.3 |
| Surplus on disposal of property, plant and equipment | (6.5) | (3.6) |
| Movement in debtors' impairment provision | 102.7 | 136.9 |
| Movement in retirement benefits provision | (2.1) | (3.8) |
| Movement in other provisions | 71.5 | 30.4 |
| | 1 130.0 | 1 050.1 |
| <i>Changes in working capital:</i> | (651.9) | (380.4) |
| Decrease in inventories | 17.0 | 4.1 |
| Increase in trade and other receivables | (644.3) | (454.1) |
| (Decrease)/Increase in trade and other payables | (24.6) | 69.6 |
| | 478.1 | 669.7 |
| 27.2 Taxation paid | | |
| Amount (owing)/due at the beginning of the year | (2.5) | 29.6 |
| Amount charged to the income statement | (272.1) | (261.5) |
| Adjustment for deferred taxation | 23.8 | 43.8 |
| Amount owing at the end of the year | 36.6 | 2.5 |
| | (214.2) | (185.6) |
| 27.3 Cash and cash equivalents | | |
| Cash deposits and cash on hand | 62.2 | 54.8 |
| Short-term interest-bearing borrowings | (611.4) | (637.0) |
| Cash and cash equivalents | (549.2) | (582.2) |

28 FINANCIAL RISK MANAGEMENT

Risk management is the identification of actual and potential areas of risk, followed by a process of risk mitigation. Responsibility for this process of risk management is with the Risk Working Group ("RWG"), a committee consisting of the members of the Executive Committee and the company secretary. The RWG formally reports to the Audit and Risk Committee on a biannual basis.

The Risk Working Group is responsible for identifying, evaluating and monitoring all significant risks facing the business. Members of the RWG are responsible for integrating risk management into the day-to-day activities of the business and ensuring that the staff are aware and accountable for managing risk and maintaining internal control.

The group is exposed to financial risks, being credit risk, market risk (including currency, interest rate and price risks) and liquidity risk. The group manages the overall risk by focusing on minimising the potential adverse effects of these risks on the group's financial performance.

The group's primary business is that of a credit retailer. As such, credit risk features as the dominant financial risk. It provides the foundation of the group's profitability, yet the mismanagement of credit risk will threaten the ongoing sustainability of the business.

Due to its pervasive and strategic importance, credit policies are continually evaluated by the Executive Committee to ensure that they are in line with prudent lending practices, yet maintain the group's overall profitability and return on assets. The responsibility for the implementation of these policies rests with the chief operating officer, credit risk executive and their teams.

28.1 Credit risk

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. The maximum credit exposure is that of accounts receivable, fixed income securities and deposits.

(i) Accounts receivable

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 places.

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; and
- 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 which is done annually.
- 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 dynamic basis.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010 CONTINUED

28 FINANCIAL RISK MANAGEMENT CONTINUED

28.1 Credit risk continued

i) Accounts receivable continued

The group manages its risk effectively by assessing the borrower'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.

In addition, a payment rating system manages the customer's payment profile. A payment rating is applied to each customer individually and is based on the customer's payment history relative to their contractual arrangements. This payment rating is integral to the calculation of the debtors' impairment provision in terms of IAS 39. IAS 39 requires that all impaired receivables are carried at their net present value of the expected cash flows from such accounts, discounted at the original effective rate implicit in the credit agreement.

| | GROUP | |
|---|----------------|------------|
| | 2010 Rm | 2009 Rm |
| The total net receivable balance can be analysed as follows: | | |
| Receivables satisfactory paid | 2 886.1 | 2 437.8 |
| Slow paying and non-performing receivables which have been impaired | 1 084.9 | 950.0 |
| | 3 971.0 | 3 387.8 |

The payment ratings categorise individual customers into 13 distinct categories which have been summarised into four main groupings:

| | | No. of customers | | Impairment provision % | |
|--|----------|--------------------------------|------------------|------------------------|-------|
| | | 2010 | 2009 | 2010 | 2009 |
| SATISFACTORY PAID: | | | | | |
| Customers fully up to date including those who have paid 70% or more of amounts due over the contract period | No. % | 498 370 72.7% | 497 296 72.0% | 0% | 0% |
| SLOW PAYERS: | | | | | |
| Customers fully up to date including those who have paid 65% to 70% of amounts due over the contract period | No. % | 58 476 8.5% | 57 042 8.2% | 23% | 20% |
| NON-PERFORMING CUSTOMERS | | | | | |
| Customers who have paid 55% to 65% of amounts due over the period of the contract | No. % | 48 446 7.1% | 50 300 7.3% | 43% | 42% |
| NON-PERFORMING CUSTOMERS | | | | | |
| Customers who have paid 55% or less of amounts due over the period of the contract | No. % | 80 417 11.7% | 86 448 12.5% | 94% | 88% |
| Total | | 685 709 | 691 086 | 16.0% | 15.7% |

28 FINANCIAL RISK MANAGEMENT CONTINUED

28.1 Credit risk continued

(i) Accounts receivable continued

| | GROUP | |
|---|--------------|------------|
| | 2010 Rm | 2009 Rm |
| The ageing of satisfactory paid receivables past due but not impaired as a percentage of satisfactory paid receivables is as follows: | | |
| 1 instalment in arrear | 4.4% | 4.7% |
| 2 instalments in arrear | 2.9% | 3.0% |
| 3 instalments in arrear | 1.9% | 2.0% |
| 4 instalments in arrear | 1.3% | 1.4% |
| 4 or more instalments in arrear | 2.3% | 2.2% |
| | 12.8% | 13.3% |

(ii) Fixed income securities and deposits

Credit risk may also arise when an entity has its credit rating downgraded causing the fair value of the group's investment in that entity's financial instruments to fall. The credit ratings of the financial institutions holding deposits on our behalf and those whose securities we hold are monitored on a regular basis.

Deposits are placed with high-quality South African institutions. Included in the cash on hand and deposits are bank balances held in foreign currency amounting to R8.4 million (2009: R11.7 million).

Fixed income securities are almost entirely risk-free government bonds or government-backed securities.

28.2 Market risk

Treasury management is carried out by the chief financial officer and senior members of the finance team under policies approved by the Audit and Risk Committee ("the Committee"). The Committee provides written treasury policies covering cash management, foreign exchange management, interest rate management and investment risk.

The group's attitude to treasury risk can be summarised as follows:

- investment risk: maximise returns at an acceptable level of risk;
- foreign exchange risk: eliminate transaction risk and net investment risk as far as practically possible; and
- interest rate risk: manage short-term volatility.

(i) Foreign exchange risk management

Foreign exchange risk is present in respect of imports of merchandise and the net investment in Botswana.

Imports of merchandise

Merchandise is sourced from foreign suppliers, particularly in the Far East. In order to minimise exposure to foreign currency fluctuations, forward cover is taken out to cover forward purchase commitments made with foreign suppliers. The group strives to maintain forward cover for the next six to nine months' purchase commitments.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010 CONTINUED

28 FINANCIAL RISK MANAGEMENT CONTINUED

28.2 Market risk continued

During the year, 23.6% (2009: 23.7%) of the purchases were in foreign denominated currencies. Below is a summary of the amounts payable under forward contracts:

| | Term | Rate | Foreign currency FCm | Rand equivalent Rm | Fair value (gain)/loss Rm |
|-------------|-------------------------------|---|-------------------------|--------------------------|---------------------------------|
| 2010 | Less than 3 months | Rates vary from R7.46 to R7.79 | | | |
| US dollar | | | 7.0 | 53.5 | 2.1 |
| 2009 | Less than 9 months | Rates vary from R9.51 to R10.24 | 20.2 | 199.3 | 12.2 |

Below is a sensitivity analysis of the effect of currency movements of 5% and 10% respectively on the above forward exchange rates:

| | -10% | -5% | +5% | +10% |
|-------------------------------|------------|------------|--------------|--------------|
| 2010 | | | | |
| Effect on (profit)/loss | 3.7 | 1.9 | (1.9) | (3.7) |
| (Increase)/Decrease in equity | 3.7 | 1.9 | (1.9) | (3.7) |
| 2009 | | | | |
| Effect on (profit)/loss | 6.6 | 13.1 | (13.1) | (6.6) |
| (Increase)/Decrease in equity | 6.6 | 13.1 | (13.1) | (6.6) |

Net investment in foreign entities

The currency exposure is limited to the net investment in Botswana of R76.3 million (2009: R77.0 million), which includes a long-term loan account. The currency exposure is managed by keeping the net investment at a minimum practical level by remitting cash to South Africa on a regular basis through loan repayments and dividends.

Below is a sensitivity analysis of the effect of currency movements of 5% and 10% on the year-end value of our net investment in Botswana:

| | -10% | -5% | +5% | +10% |
|-------------------------------|------------|------------|--------------|--------------|
| 2010 | | | | |
| (Increase)/Decrease in equity | 8.1 | 4.1 | (4.1) | (8.1) |
| 2009 | | | | |
| (Increase)/Decrease in equity | 9.4 | 4.7 | (4.7) | (9.4) |

There is no impact on profit or loss for both years.

28 FINANCIAL RISK MANAGEMENT CONTINUED

28.2 Market risk continued

ii) Interest rate risk

The principal objective of interest rate management is to:

- minimise the impact of interest rate volatility on profits in the short term; and
- ensure that the group is protected from volatile interest rate movements for the medium to long term.

Borrowings

As part of the process of managing floating rate interest-bearing debt, the interest rate characteristics of borrowings are positioned according to the expected movements in interest rates. The chief financial officer may recommend to the Audit and Risk Committee (“the committee”) the use of fixed interest debt and interest rate swaps as circumstances dictate. The use of such instruments must be specifically approved by the committee.

Interest rate profiles are analysed by the changes in its borrowing levels and the interest rates applicable to the facilities available to the group. The sensitivity analysis for a 50 basis points change in the interest is set out below, assuming the current level of borrowings at year-end is maintained throughout the year:

| | +50bp | -50bp |
|-------------------------------|------------|--------------|
| 2010 | | |
| Effect on (profit)/loss | 3.8 | (3.8) |
| (Increase)/Decrease in equity | 3.8 | (3.8) |
| 2009 | | |
| Effect on (profit)/loss | 2.6 | (2.6) |
| (Increase)/Decrease in equity | 2.6 | (2.6) |

In order to hedge exposures in the interest rate profile of peak borrowings, the group may make use of interest derivatives and other hedging instruments in terms of limits specified in the group’s treasury policy approved by the Audit and Risk Committee. During the current financial year, the group entered into an interest rate swap with the counterparty being a high-quality institution. The value of borrowings hedged and the fair value of these contracts as at 31 March 2010 are as follows:

| | Notional amount Rm | Maturity date | Fair value (Rm) | |
|---|-----------------------|---------------|-----------------|-------|
| | | | 2010 | 2009 |
| Interest rate swap with the group being the fixed rate payer at 10.58% and the counterparty being the floating rate payer | | | | |
| – commencing on 30 March 2009 | 100 | 30 Mar 2010 | – | (2.9) |
| | | | – | (2.9) |

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010 CONTINUED

28 FINANCIAL RISK MANAGEMENT CONTINUED

28.2 Market risk continued

(ii) Interest rate risk continued

Accounts receivable

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.

Due to the business model of Lewis Group, the fair value of instalment and loan receivables would have no impact on management's decision-making and for this reason, fair value was not determined.

Interest rate profile

The interest rate profiles of financial instruments are as follows:

| | Term of investment | Average closing effective interest rate % | Floating or fixed | Carrying value Rm |
|--|-------------------------------|---|-------------------|-------------------|
| 2010 | | | | |
| ASSETS | | | | |
| Gross instalment sale and loan receivables | Up to 3 years | 27.8% | Fixed | 4 705.2 |
| Fixed income securities | Varies | 9.4% | Fixed | 407.9 |
| Money market investments | Up to 6 months | 7.9% | Floating | 178.1 |
| LIABILITIES | | | | |
| Long-term interest-bearing borrowings | Varies (refer note 11) | 9.4% | Floating | 350.0 |
| Short-term interest-bearing borrowings | Varies (refer note 15) | 9.0% | Floating | 611.4 |
| 2009 | | | | |
| ASSETS | | | | |
| Gross instalment sale and loan receivables | Up to 3 years | 30.6% | Fixed | 4 007.2 |
| Fixed income securities | Varies | 10.5% | Fixed | 351.3 |
| Money market investments | Up to 6 months | 11.7% | Floating | 199.1 |
| LIABILITIES | | | | |
| Long-term interest-bearing borrowings | Varies (refer note 11) | 11.4% | Floating | 100.0 |
| Short-term interest-bearing borrowings | Varies (refer note 15) | 12.1% | Floating | 637.0 |

(iii) Price risk

There is exposure to securities price risk because of investments held by Monarch Insurance Company Limited ("Monarch"). These investments are classified as available-for-sale investments.

Monarch holds investments in order to meet the insurance liabilities and solvency margins required by the Short-term Insurance Act of 1998. The investments are managed by Sanlam Investment Management (Proprietary) Limited ("Sanlam") on Monarch's behalf.

The overall management objectives of the portfolio are:

- preservation of capital over the long term;
- managing market risk over the short to medium term; and
- to ensure the portfolio is adequately diversified.

28 FINANCIAL RISK MANAGEMENT CONTINUED

28.2 Market risk continued

(iii) Price risk continued

Monarch's board controls the investment strategy adopted by Sanlam. At each of the board's quarterly meetings, a comprehensive report from Sanlam is presented and discussed. Particular emphasis is placed on:

- current market conditions and future expectations;
- asset allocations considering the above;
- returns under each asset category;
- detailed reviews of the equity portfolio and the positioning of the bond portfolio; and
- recommendations of the asset manager going forward.

The Monarch board considers the recommendations of the asset managers. The investment strategy is then formulated for the following quarter and authority given to the chief financial officer to implement the strategy. The performance of this portfolio is presented to the group's Audit and Risk Committee on a quarterly basis.

The market risk of the fixed security portfolio is monitored through the modified duration of the portfolio, a measure which approximates the movement in the fair value of such securities relative to interest rate movements. The modified duration of the fixed income portfolio at the respective year-ends and the JSE All Bond Index are as follows:

| | GROUP | |
|---|-------|------|
| | 2010 | 2009 |
| Modified duration of Monarch's fixed income portfolio | 5.7 | 5.7 |
| Modified duration of the JSE All Bond index | 6.0 | 5.8 |

The market risk of the equity portfolio is monitored through the portfolio's sectoral allocation and beta. The respective measures for the portfolio at year-end can be summarised as follows:

| | | |
|--|-------|-------|
| Portfolio sectoral analysis: | | |
| Resources | 17.2% | 15.3% |
| Financials | 27.5% | 21.0% |
| Industrial | 55.3% | 63.7% |
| Beta of portfolio relative to JSE Index | 0.84 | 0.85 |
| Beta of portfolio relative to JSE Index, excluding resources | 0.95 | 0.95 |

Beta measures the portfolio volatility relative to the market index, which by definition has a beta of 1.0.

28.3 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed facilities. Due to the dynamic nature of the underlying business, the group maintains flexibility in funding through the use of committed facility lines.

Management monitors the group's cash flows through the monitoring of actual inflows and outflows against forecasted cash flows and the utilisation of borrowing facilities. A quarterly analysis is presented to the Audit and Risk Committee.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010 CONTINUED

28 FINANCIAL RISK MANAGEMENT CONTINUED

28.3 Liquidity risk continued

Below is a summary of the committed facilities and the utilisation thereof at year-end:

| | GROUP | |
|---|------------|------------|
| | 2010 Rm | 2009 Rm |
| Total banking facilities | 1 450.0 | 1 250.0 |
| Less: drawn portion of facility | (961.4) | (737.0) |
| Plus cash on hand | 62.2 | 54.8 |
| Available cash resources and facilities | 550.8 | 567.8 |

The maturity profile of financial liabilities has been set out in note 30.

29 INSURANCE RISK

The risks covered under insurance contracts entered into with customers by the group's insurer, Monarch Insurance Company ("Monarch"), are as follows:

- settlement of customer's outstanding balance in the event of death or disability;
- replacement of customer's goods in the event of damage or theft of goods; and
- settlement of customer's account, should the customer become unemployed after three months subsequent to the sale.

The risk under the insurance contract is the possibility that the insured events as detailed above occur and the uncertainty of the amount of the resulting claim. By the very nature of the insurance contract, this risk is random and therefore unpredictable.

The principal risk that the group faces is that the actual claims exceed the amount of the insurance claims provisions. This could occur because the frequency or severity of claims are greater than estimated. Insurance events are random and the actual number of claims will vary from year to year from the estimated claims provision established using historical claims patterns.

The development of insurance claims provisions provides a measure of the group's ability to estimate the ultimate value of the claims. The group does not underwrite long-term risks and, consequently, the uncertainty about the amount and timing of claim payments is limited. Regular estimates of claims are performed in reviewing the adequacy of the insurance claims provisions. Claims development is reviewed by management on a regular basis.

The frequency and severity of claims can be affected due to unforeseen factors such as patterns of crime, AIDS and employment trends. The group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The geographical spread of the group ensures that the underwritten risks are well diversified. No significant concentrations of insurance risks exist.

A proportional reinsurance arrangement has been entered into by Monarch to facilitate the transfer of 40% of the risk under these policies to an external reinsurer. Catastrophe cover has been placed with third-party insurers and reinsurers in order to reduce the potential impact of a single event on the earnings and capital of Monarch. Due to the nature of the insurance risk, claims can be measured reliably. Past experience has indicated that claims provision estimates approximate the actual claims costs. The insurance result is dependent on the trend in the group's merchandising sales. There is no insurance business other than with the group's customers.

| | GROUP | |
|---|----------------|------------|
| | 2010 Rm | 2009 Rm |
| 29 INSURANCE RISK CONTINUED | | |
| MOVEMENT IN PROVISIONS: | | |
| (i) Unearned premium reserve | | |
| Opening balance | 360.0 | 290.5 |
| Movement during year | 78.2 | 69.5 |
| Closing balance | 438.2 | 360.0 |
| Comprising: | | |
| Unearned premiums | 722.5 | 598.1 |
| Less: reinsurers share of provision | (284.3) | (238.1) |
| Net balance | 438.2 | 360.0 |
| (ii) Insurance provisions | | |
| Insurance provisions include outstanding claims, IBNR reserve and deferred reinsurance acquisition reserve. | | |
| Opening balance | 71.1 | 32.8 |
| Movement during year | 59.3 | 38.3 |
| Closing balance | 130.4 | 71.1 |

REGULATORY REQUIREMENTS

The group's insurer, Monarch Insurance Company Limited ("Monarch"), is required to maintain certain insurance liabilities and have a minimum solvency margin of 15% as set out in the Short-term Insurance Act of 1998. Furthermore, Monarch is required to hold certain prescribed assets to meet its insurance liabilities and solvency margins. These assets are subject to various limits in order to ensure an adequate spread and diversification of assets.

Monarch has met all the requirements of the Short-term Insurance Act regarding its insurance liabilities, solvency margins, prescribed assets and asset spread.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010 CONTINUED

30 FINANCIAL INSTRUMENTS

(i) Categories

| | Held-to-maturity | Amortised cost | Loans and receivables | Available-for-sale | Fair value through profit and loss | Total |
|----------------------------------|------------------|----------------|-----------------------|--------------------|------------------------------------|----------------|
| ASSETS | | | | | | |
| 2010 | | | | | | |
| Investments – insurance business | | | | 894.1 | | 894.1 |
| Trade and other receivables | | | 3 427.6 | | | 3 427.6 |
| Cash on hand and on deposit | | 62.2 | | | | 62.2 |
| 2009 | | | | | | |
| Investments – insurance business | | | | 734.2 | | 734.2 |
| Trade and other receivables | | | 2 893.4 | | | 2 893.4 |
| Cash on hand and on deposit | | 54.8 | | | | 54.8 |
| LIABILITIES | | | | | | |
| 2010 | | | | | | |
| Trade payables | | 64.1 | | | | 64.1 |
| Borrowings | | 961.4 | | | | 961.4 |
| 2009 | | | | | | |
| Trade payables | | 84.8 | | | | 84.8 |
| Borrowings | | 737.0 | | | | 737.0 |

(ii) Maturity profile of financial liabilities

The maturity profiles of financial liabilities at 31 March 2010 are as follows:

| | 0 – 12 months | 2 – 5 years | >5 years | Total |
|--------------------|----------------|----------------|----------|------------------|
| LIABILITIES | | | | |
| Borrowings | (611.4) | (350.0) | | (961.4) |
| Trade payables | (64.1) | | | (64.1) |
| | (675.5) | (350.0) | – | (1 025.5) |

(iii) Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted prices at the balance sheet. The quoted market price used is the current bid price.

The fair value of interest swaps and collars is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using quoted forward exchange rates at the balance sheet dates.

30 FINANCIAL INSTRUMENTS CONTINUED

(iv) Fair value hierarchy

The following table presents the assets and liabilities that are recognised and subsequently measured at fair value as at 31 March 2010:

| | Level 1 | Level 2 | Level 3 | Total |
|----------------------------|--------------|--------------|----------|--------------|
| Available-for-sale assets: | | | | |
| Insurance investments: | | | | |
| Equities | 308.1 | | | 308.1 |
| Fixed income securities | 407.9 | | | 407.9 |
| Money market | | 178.1 | | 178.1 |
| Forward exchange contracts | | (2.1) | | (2.1) |
| | 716.0 | 176.0 | - | 892.0 |

A description of the categorisation of the valuation techniques used to value the assets and liabilities at fair value is set out below:

LEVEL 1:

Financial instruments valued with reference to quoted prices in active markets where the quoted price is readily available and the price represents actual and recurring market transactions on an arm's length basis. An active market is one which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

LEVEL 2:

Financial instruments valued using inputs other than quoted prices as described for Level 1, but which are observable for the asset or liability, either directly or indirectly, such as:

- quoted prices for similar assets/liabilities in an active market;
- quoted prices for identical or similar assets/liabilities in inactive markets;
- valuation model using observable inputs; and
- valuation model using inputs derived from/corroborated by observable market data.

LEVEL 3:

Financial instruments valued using inputs that are not based on observable market data. The group does not have any assets or liabilities that fall into this category.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010 CONTINUED

31 CAPITAL RISK MANAGEMENT

The group's objectives when managing capital are to:

- safeguard the group's ability to continue as a going concern;
- provide returns for shareholders;
- provide benefits for other stakeholders; and
- maintain an optimal capital structure as approved by the board.

In order to maintain the optimal capital structure, dividends paid to shareholders may be adjusted, capital could be returned to shareholders or new shares could be issued.

Consistent with others in the industry, capital is monitored on the basis of the gearing ratio. This ratio is calculated as net debt divided by equity capital. Net debt is calculated as total interest-bearing borrowings less cash and cash equivalents.

During the 2010 financial year, the strategy was to maintain the gearing below 30%, which in the current credit conditions is considered to be prudent. The gearing rates at 31 March 2010 and 31 March 2009 were as follows:

| | GROUP | |
|--|--------------|------------|
| | 2010 Rm | 2009 Rm |
| Interest-bearing borrowings | 961.4 | 737.0 |
| Less: cash and cash equivalents | (62.2) | (54.8) |
| Net debt | 899.2 | 682.2 |
| Shareholders' equity | 3 273.7 | 2 900.3 |
| GEARING RATIO | 27.5% | 23.5% |
| 32 CONTINGENCIES | | |
| Bank and other guarantees given by the group to third parties. The directors are of the opinion that no loss will be incurred on these guarantees. | 8.4 | 7.5 |
| 33 CAPITAL COMMITMENTS | | |
| Material capital commitments contracted for or authorised and contracted at the end of the year | – | 10.0 |

34 NEW STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE

The following standards amendments resulting from the Improvement Project and interpretations are not yet effective and have not been adopted by the group:

| | |
|--|--|
| IFRS 2: Share-based Payments | Clarification of the scope of the standard and amendments relating to cash-settled transactions. |
| IFRS 3: Business Combinations | A revised statement in respect of the accounting for business combinations. |
| IFRS 9: Financial Instruments | New standard that forms part of a three-phase project to replace IAS 39: Financial Instruments: Recognition and Measurement. |
| IAS 27: Consolidated and Separate Financial Statements | A revised statement to deal with changes arising from the revision of IFRS 3. |
| IFRIC 14: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction | The amendment relates to prepayments of a minimum funding requirement. |
| IFRIC 17: Distribution of Non-cash Assets to Owners | Interpretation relating to the distribution of assets as a dividend. |
| IFRIC18: Transfer of Assets from Customers | Interpretation setting out the accounting in circumstances where assets are transferred from customers. |

Annual improvements to IFRS issued May 2008 for amendments effective 1 July 2009.

Annual improvements to IFRS issued April 2009 for amendments effective 1 July 2009 and 1 January 2010.

Management has not performed an assessment of the potential impact, if any, that the implementation of these standards and interpretations will have on the consolidated financial statements.

It should be noted that IFRS 9 introduces new requirements for classifying and measuring financial assets. This standard will be developed further in 2010 and new requirements for classifying and measuring financial liabilities, derecognition of financial instruments, impairment and hedge accounting will be implemented. No investigation of the impact has been made since the statement is still evolving. However, it is very likely that the complete standard will have a significant impact on the group's accounting.

COMPANY INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2010

| | | COMPANY | |
|--|-------|--------------|------------|
| | Notes | 2010 Rm | 2009 Rm |
| REVENUE | 4 | 322.3 | 354.5 |
| OPERATING COSTS | 5 | (6.2) | (4.0) |
| PROFIT BEFORE TAXATION | | 316.1 | 350.5 |
| Taxation | 6 | - | - |
| NET PROFIT ATTRIBUTABLE TO ORDINARY SHAREHOLDERS | | 316.1 | 350.5 |

COMPANY BALANCE SHEET

AT 31 MARCH 2010

| | | COMPANY | |
|-------------------------------------|-------|----------------|------------|
| | Notes | 2010 Rm | 2009 Rm |
| ASSETS | | | |
| NON-CURRENT ASSETS | | | |
| Interest in subsidiaries | 2 | 2 796.3 | 2 796.4 |
| CURRENT ASSETS | | | |
| Deposits at bank | | - | 0.3 |
| TOTAL ASSETS | | 2 796.3 | 2 796.7 |
| EQUITY AND LIABILITIES | | | |
| CAPITAL AND RESERVES | | | |
| Share capital and premium | 3 | 2 711.6 | 2 711.6 |
| Retained earnings | | 83.0 | 83.6 |
| | | 2 794.6 | 2 795.2 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | | 1.7 | 1.5 |
| TOTAL EQUITY AND LIABILITIES | | 2 796.3 | 2 796.7 |

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2010

| | COMPANY | | |
|--|---------------------------------------|----------------------------|----------------|
| | Share capital and premium Rm | Retained Earnings Rm | Total Rm |
| BALANCE AS AT 1 APRIL 2008 | 2 750.0 | 50.3 | 2 800.3 |
| Net profit attributable to ordinary shareholders | – | 350.5 | 350.5 |
| Shares cancelled | (38.4) | – | (38.4) |
| Dividends paid | – | (317.2) | (317.2) |
| BALANCE AT 31 MARCH 2009 | 2 711.6 | 83.6 | 2 795.2 |
| Net profit attributable to ordinary shareholders | – | 316.1 | 316.1 |
| Dividends paid | – | (316.7) | (316.7) |
| BALANCE AT 31 MARCH 2010 | 2 711.6 | 83.0 | 2 794.6 |

COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2010

| | Notes | COMPANY | |
|---|-------|----------------|------------|
| | | 2010 Rm | 2009 Rm |
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Cash generated from operations | 7 | (6.0) | (4.1) |
| Dividends and interest received | | 322.3 | 354.5 |
| CASH RETAINED FROM OPERATING ACTIVITIES | | 316.3 | 350.4 |
| CASH UTILISED IN INVESTING ACTIVITIES | | | |
| Loans to subsidiary companies | | 0.1 | 4.2 |
| NET CASH INFLOW FROM INVESTING ACTIVITIES | | 0.1 | 4.2 |
| CASH EFFECTS OF FINANCING ACTIVITIES | | | |
| Cost of own shares acquired | | – | (38.4) |
| Dividends paid | | (316.7) | (317.2) |
| NET CASH OUTFLOW FROM FINANCING ACTIVITIES | | (316.7) | (355.6) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | (0.3) | (1.0) |
| Cash and cash equivalents at the beginning of the year | | 0.3 | 1.3 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | | – | 0.3 |

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

| | | COMPANY | |
|----------|--|----------------|------------|
| | | 2010 Rm | 2009 Rm |
| 1 | ACCOUNTING POLICIES | | |
| | The financial statements have been prepared on the historical cost basis and in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act. The accounting policies used in the preparation of these financial statements are set out on pages 71 to 77. | | |
| 2 | INTEREST IN SUBSIDIARIES | | |
| | Shares at cost | 2 800.0 | 2 800.0 |
| | Indebtedness | (3.7) | (3.6) |
| | | 2 796.3 | 2 796.4 |
| 3 | SHARE CAPITAL AND PREMIUM | | |
| | AUTHORISED | | |
| | 150 000 000 ordinary shares of 1 cent each | 1.5 | 1.5 |
| | ISSUED | | |
| | 98 057 959 (2009: 99 157 959) ordinary shares of 1 cent each | 1.0 | 1.0 |
| | Share premium | 2 710.6 | 2 710.6 |
| | Total share capital and premium | 2 711.6 | 2 711.6 |
| 4 | REVENUE | | |
| | Dividends received from subsidiary | 322.3 | 354.4 |
| | Interest received | - | 0.1 |
| | | 322.3 | 354.5 |
| 5 | OPERATING PROFIT | R | R |
| | Stated after: | | |
| | Audit fees – current year | 50 000 | 50 000 |
| | Other services | - | 15 000 |
| | | 50 000 | 65 000 |
| 6 | TAXATION | Rm | Rm |
| | Taxation | - | - |
| | | - | - |
| | THE RATE OF TAXATION ON PROFIT IS RECONCILED AS FOLLOWS: | | |
| | Profit before taxation | 316.2 | 350.5 |
| | Taxation calculated at a tax rate of 28% (2009: 28%) | 88.5 | 98.1 |
| | (Exempt income)/Disallowed expenditure | (88.5) | (98.1) |
| | Taxation per income statement | - | - |
| 7 | CASH GENERATED FROM OPERATIONS | | |
| | Profit before taxation | 316.1 | 350.5 |
| | Dividends and interest received | (322.3) | (354.5) |
| | Increase/(Decrease) in trade and other payables | 0.2 | (0.1) |
| | | (6.0) | (4.1) |

INTEREST IN SUBSIDIARY COMPANIES

FOR THE YEAR ENDED 31 MARCH 2010

| | Nature of business | 2010 | | 2009 | |
|--|--------------------|-----------------------------------|-------------|-----------------------------------|-----------|
| | | Carrying value of subsidiaries Rm | % holding | Carrying value of subsidiaries Rm | % holding |
| DIRECTLY HELD | | | | | |
| Lewis Stores (Pty) Ltd | F | 2 800.0 | 100% | 2 800.0 | 100% |
| INDIRECTLY HELD | | | | | |
| Incorporated in South Africa | | | | | |
| Kingtimm (Pty) Ltd | L | | 100% | | 100% |
| Lifestyle Living (Pty) Ltd | F | | 100% | | 100% |
| Monarch Insurance Co. Ltd | I | | 100% | | 100% |
| Incorporated in Botswana | | | | | |
| Lewis Stores (Botswana) (Pty) Ltd | F | | 100% | | 100% |
| Lewis Management Services (Botswana) (Pty) Ltd | M | | 100% | | 100% |
| Incorporated in Swaziland | | | | | |
| Lewis Stores (Swaziland) (Pty) Ltd | F | | 100% | | 100% |
| Incorporated in Namibia | | | | | |
| Lewis Stores (Namibia) (Pty) Ltd | F | | 100% | | 100% |
| Lewis Management Services Namibia (Pty) Ltd | M | | 100% | | 100% |
| Incorporated in Lesotho | | | | | |
| Lewis Stores (Lesotho) (Pty) Ltd | F | | 100% | | 100% |
| COST OF SUBSIDIARIES | | 2 800.0 | | 2 800.0 | |
| AMOUNTS DUE BY SUBSIDIARIES | | | | | |
| Lewis Stores (Pty) Ltd | | (3.7) | | (3.6) | |
| INTEREST IN SUBSIDIARIES | | 2 796.3 | | 2 796.4 | |

F Furniture dealer
 I Insurance company
 M Management services company
 L Company holding property leases