

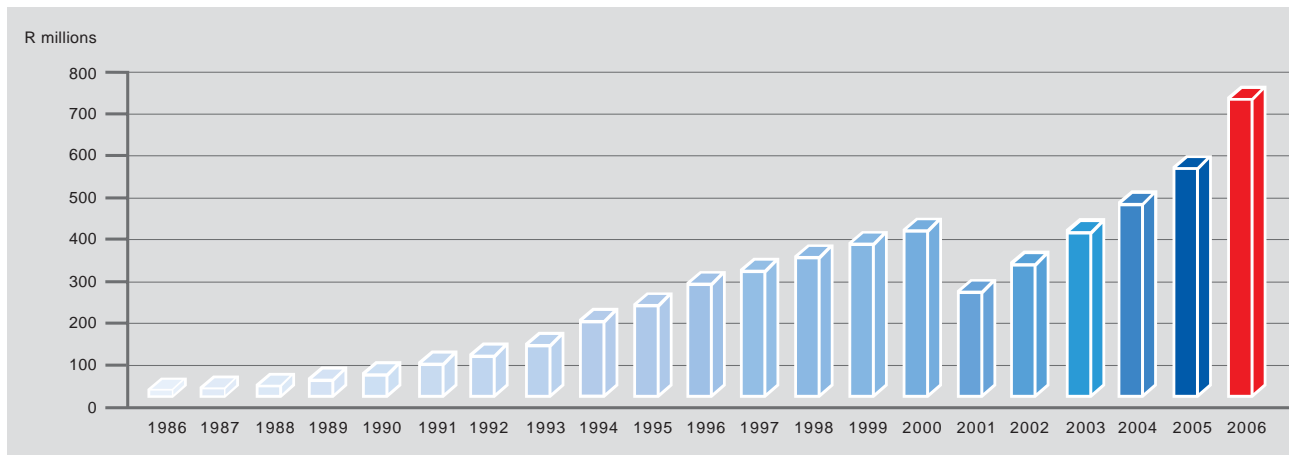
chairman's report

“Prudent,
stable approach
to business,
yet innovative
and dynamic....
Continues to
deliver consistent
shareholder
value.”

David Nurek
(Independent Non-executive Chairman)



20 year operating profit (1986 – 2006)



Introduction

Lewis Group has completed its first full financial year as a listed company. Great strides have been made during this period and management has adapted admirably to operating in a listed environment.

The decision by our former holding company, GUS plc, to dispose of its remaining stake (50% plus one share) in the Lewis Group was met with a favourable response from the investment community, with institutional shareholders acquiring the 50 million shares on offer within a three-day book-building process during May 2005. This has maximised the liquidity in the share by increasing the level of the free float.

As a listed company we are committed to further creating value for our shareholders. Sound operational and financial performance, together with strong growth in local and global equity markets, has seen the group's share price at year-end rise by 120% since listing at R28.00 some 18 months ago. This translates into an increase of R3.36 billion in the group's market capitalisation on the JSE Ltd. While all our shareholders have benefited from this growth, investors who acquired shares following the latest GUS disposal have seen an 81% appreciation in their investment.

Lewis Group has highly experienced management. While our team adopts a

prudent, stable approach to business this should not mask the innovation and dynamism which is evident in so many facets of the operations. The executive team has been expanded to add depth to our management resources while at the same time increasing long-term succession opportunities.

Business environment

During the year under review, the strong currency coupled with low international inflation resulted in a stable domestic inflation environment which was positive for interest rates. Consumer spending was further stimulated by an interest rate cut in April 2005, bringing the decline in interest rates since mid-2003 to 650 basis points. Interest rates are at their lowest levels in 25 years.

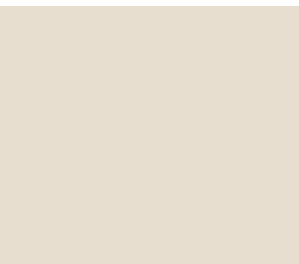
Consumers have responded to the low interest rates and positive economic environment and this has favoured the credit-based furniture and appliance retailers. The Minister of Finance once again provided personal tax relief in the National Budget in February, announcing total tax benefits of R13.5 billion.

Government is also committed to infrastructural development spending over the next three years on electrification, housing and transportation. This is likely to have major benefits for the private sector.

Middle income South Africans will be the biggest beneficiaries of the tax relief and the increased capital expenditure. As this is the target market served by the Lewis Group, it bodes well for the future.

Financial performance

Following the adoption of International Financial Reporting Standards (IFRS) on 1 April 2005, the group has elected to report "normalised" headline earnings to reflect the true operational performance of the business and assist shareholders in the analysis of the results, particularly in respect of share-based payments which were given by the former holding company and have not impacted on current shareholders (refer pages 4 and 5).



The Lewis Group once again delivered a most pleasing financial performance. Revenue increased by 14.5% to R2 874.5 million, driven by strong merchandise sales growth of 16.0% to R1 567.8 million as the group continued to capitalise on positive trading conditions.

The merchandise margin rose to 34.9% from 34.5%, with the normalised operating profit margin rising from 23.6% to 25.3%.

Normalised headline earnings increased by 27.3% to R510.4 million, driven by good sales growth, improved gross profit margins, strong cash flows and continued prudent management of the credit book.

With its consistently high cash flow, the group has embarked on a strategy to provide healthy returns to its shareholders through reducing the dividend cover and commencing a share repurchase programme, yet retaining sufficient funds to grow organically and to meet its other strategic goals.

Social responsibility

The Lewis Group will continue to explore opportunities for broad-based Black Economic Empowerment. We will continue to expand on our Employment Equity initiatives and increase procurement from suppliers controlled by previously disadvantaged individuals.

As in the past, we will continue to focus corporate responsibility in the areas where we do business and specifically related to our target market.

Directorate

David Tyler, the GUS plc representative on our Board, resigned as a non-executive director following GUS's sale of its holding in the Lewis Group. David was associated with our group for many years and we thank him for his contribution. We welcomed Professor Fatima Abrahams as an independent non-executive director from 1 September 2005. She is a professor in the Department of Industrial Psychology at the University of the Western Cape and serves on the Board of the Foschini Group. Professor Abrahams has been appointed to the Remuneration and Nomination



Committee and the newly-formed Transformation Committee and we are already benefiting from her valuable insight and expertise. The Board now consists of four independent non-executive directors and one executive director, reflecting a balance in line with best corporate governance practice which ensures objectivity for the effective functioning of the Board.

Corporate governance

The group subscribes to the values of good corporate governance and complies substantially with the code of Corporate Practices and Conduct as set out in the King II Report on Corporate Governance and the JSE Ltd Listings Requirements.

Prospects

The Board and management are confident that merchandise sales will continue to grow in real terms in the year ahead. The organic growth via the benefits of innovative merchandising, the expanded store footprint and a continued focus on creating operational efficiencies will further enhance performance. Assuming a relatively stable interest rate and currency in the year ahead, shareholders can expect meaningful earnings growth in 2007.

Thanks

The group has performed particularly well on a number of fronts over the past year and I would like to acknowledge the contribution of the management team in achieving this success. Thanks are due to my fellow directors for their guidance and counsel in overseeing the affairs of the group. To our shareholders, thank you for your belief in our company and we welcome those who invested in the Lewis Group for the first time this year.

A handwritten signature in black ink, appearing to read 'David Nurek'. The signature is stylized and written in a cursive-like font.

David Nurek

Independent Non-executive Chairman