



## chief financial officer's report

“With increases of:

- **16% in merchandise sales**
- **23% in normalised operating profit**
- **67% increase in dividend**

Lewis once again delivered strong growth for all its shareholders.”

**Les Davies** (Chief Financial Officer)

### **Introduction**

The group's financial performance for the year has been shaped by real top line growth, improved gross margin and containment of costs resulting in a significant increase in operating margin.

Normalised operating profit increased by 22.8% to R728.6 million (2005: R593.5 million). Attributable profit and headline earnings per share on a normalised basis increased by 24.9% and 30.9% respectively. Operating profit per employee and per square metre have been steadily increasing over the last five years.

The company continues to generate strong cash flows despite the R160.5 million additional working capital requirement this year. A share repurchase programme commenced in September 2005 and 3.36% of the company's share capital (R151.9 million) has been repurchased. The dividend for the full year increased by 67% to 225 cents per share compared to 135 cents per share last year.

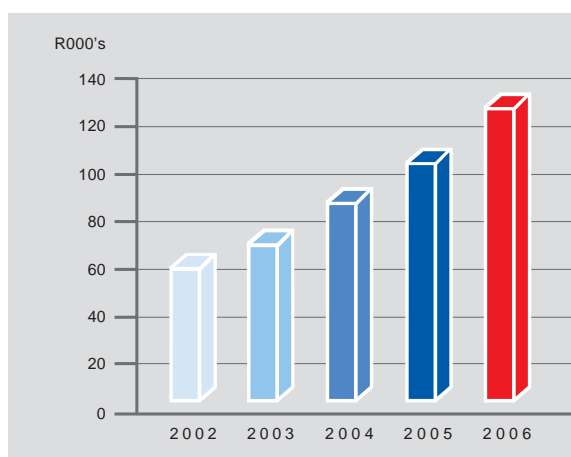
### **Income statement analysis**

Revenue comprising merchandise sales, finance charges, services and insurance income, grew by 14.5% to R2 874.5 million (2005: R2 511.2 million).

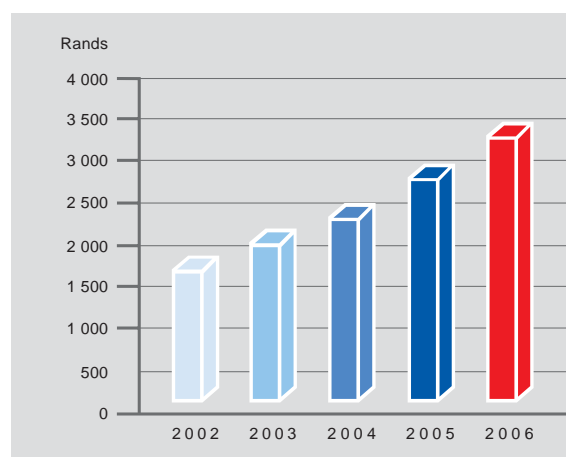
Merchandise sales increased by 16.0% this year mainly as a result of the group's merchandise initiatives. Sales growth was particularly good in the second half of the year reflecting a growth rate of 17.3%.

Insurance revenue earned grew by 12.0% to R400.4 million with a larger charge for the unearned premium reserve due to the higher levels of current trade. Finance charges increased by 11.5% to R674.4 million with lower arrear interest income as a result of the improving debtors book.

normalised operating profit per employee



normalised operating profit per sqm



Merchandise margin increased to 34.9% from 34.5%. This has been the result of merchandise sourcing and supply chain initiatives.

Significant strides have been made in the past few years to improve the quality of the debtors book through the regular upgrades to scoring systems and the focus on collection drives.

The increase in bad debts was 6.1% over last year against a debtors book increase of 9.1%. The impairment provision reflects a release of R17.4 million in the current year as compared to R23.7 million last year, which is attributable to the increase in the debtors book of R244.3 million. The impairment provision has decreased from 14.4% to 12.6% of gross debtors. The overall bad debt and impairment charge amounts to 4% of gross debtors (2005: 3.8%).

Operating expenses, excluding bad debts, the impairment provision and share-based payments, increased by 8.4% to R1 009.5 million, well below the levels of sales growth of 16%. Expense management and the drive for efficiency remains a priority in the business. The main trends in the expenditure are as follows:

- Employment costs at 8.3% higher than last year reflects higher commission earnings as a consequence of the sales growth and improved gross margins.
- Administration and IT increase of 13.2% is distorted by some exceptional recoveries in the prior year and adjusting for this, the increase is 8%.
- Marketing increased by 11.9% to support the sales momentum.
- The rise in occupancy costs is mainly due to the cost of additional storage to cater for the higher stock holding and additional maintenance to existing stores.
- The increase in transport and travel is a consequence of rising fuel costs, a large proportion of which was recovered through service charges.

Investment income consists mainly of interest and dividends on listed investments held by Monarch Insurance Company. The investments are held for the long term and traded when there is a need to rebalance the portfolio. Investment income has declined as a result of the impairment of an available-for-sale asset.

Finance costs declined by R29.9 million due to the cessation of interest payments to the former holding company.

The effective tax rate is currently 31.9% adjusted for the permanent difference created by the share-based payment. We expect next year's tax rate to be slightly higher due to increased STC payments as a consequence of the higher dividend.

### **Balance sheet review**

The increase in insurance investments has largely been driven by improved equity and bond markets.

Inventory levels increased as a consequence of 23 new stores and our strategy to carry higher levels of stock to support sales initiatives. This is evidenced by the second half sales performance of 17.3%.

Gross debtors increased by 9.1% to R2 921.4 million well below revenue growth, reflecting the quality of our debt collection process. The average age of the debtors book has improved to 14.3 months from 14.8 months. Total debtors provisions increased from 35.6% at March 2005 to 36.3% as a result of increased accounting provisions for unearned finance charges, insurance income and maintenance contract revenue.

Deferred tax reflects as a non-current asset and the increase is attributable to lower debtor tax allowances resulting from a change in the mix of credit granted.

### **Cash flow**

We continued to generate strong cash flow, despite the need to fund the larger debtors book and higher inventory levels as a result of buoyant trade.

Strong cash flow is underpinned by:

- growth in debtors book of 9.1% compared to revenue growth of 14.5%, reflecting the quality of our debtor collections;
- reduction in arrears; and
- containment of costs.

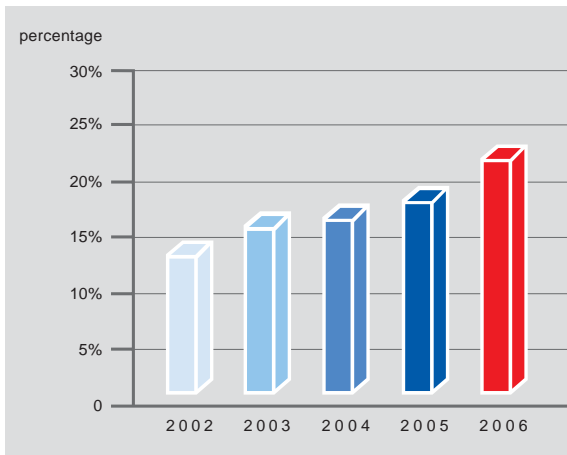
These strong cash flows positioned the company to:

- pay dividends of R156.9 million; and
- repurchase shares of R151.9 million.

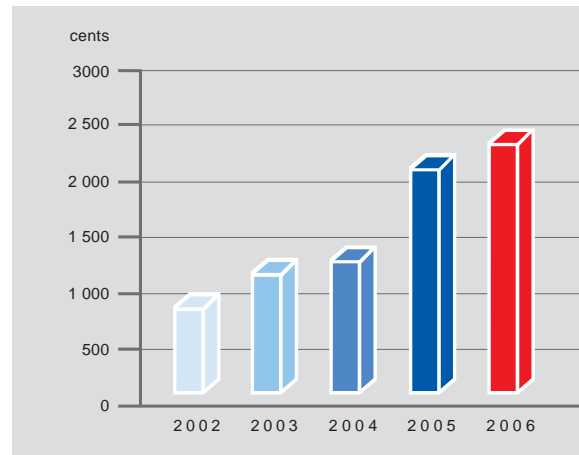
### **Changes in equity**

The increase in other reserves is the result of the rising market values of equities and bonds held by Monarch Insurance Company as prescribed investments.

return on capital employed



net asset value per share



The group repurchased 3.36% of its own shares at an average market price of R44.86. The shares have not been cancelled, but held by the subsidiary, Lewis Stores (Pty) Ltd. This has enhanced earnings per share and improved return on equity.

### Segmental reporting

Lewis is the largest single furniture brand in Southern Africa and is the core business of the group. Sales growth for this chain was 12.1%. Best Electric has made a significant contribution to group sales with growth for the year of 31.4%. There has been a turnaround in the Lifestyle Living chain as a result of merchandise initiatives reflecting sales growth of 68.1%.

On a geographic basis, 89.6% (2005: 88.8%) of revenue is generated within South Africa. The balance is attributable to Botswana, Lesotho, Namibia and Swaziland (BLNS). Store expansion has mainly been in South Africa and two stores have been closed in Botswana due to poor trading conditions.

### International Financial Reporting Standards

The financial statements have been presented in terms of International Financial Reporting Standards ("IFRS") for the first time this year. We recognise that IFRS is

evolving with new statements being issued and revisions or clarifications made to existing standards.

The following changes in accounting policies and interpretations were implemented:

- Use of transitional arrangements in terms of IFRS 1 for property, employee benefits, translation differences and the designation of financial instruments.
- A number of income statement reclassifications were made in order to comply with IFRS interpretation.
- The application of IFRS 2 in respect of share-based payments.
- Property leases with fixed escalations have been recognised on a straight-line basis over the period of the lease in terms of SAICA Circular 7/2005 and IAS 17.
- Compliance with IAS 16 with regard to depreciation and residual values.

### Closing

My thanks to the finance team for their effort throughout the financial year.

**Les Davies**  
Chief Financial Officer

# balance sheets

at 31 March 2006

	Notes	Group		Company	
		2006 Rm	2005 Rm	2006 Rm	2005 Rm
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	3	163.2	159.5	-	-
Investments – insurance business	4	478.0	400.6	-	-
Deferred taxation	12	89.7	48.7	-	-
Interest in subsidiaries	5	-	-	2 801.4	2 802.1
		<b>730.9</b>	608.8	<b>2 801.4</b>	2 802.1
<b>Current assets</b>					
Investments – insurance business	4	111.9	105.2	-	-
Inventories	6	212.6	155.8	-	-
Trade and other receivables	7	1 896.5	1 750.6	-	-
Cash on hand and deposits		28.1	55.3	-	-
		<b>2 249.1</b>	2 066.9	-	-
<b>Total assets</b>		<b>2 980.0</b>	2 675.7	<b>2 801.4</b>	2 802.1
<b>Equity and liabilities</b>					
<b>Capital and reserves</b>					
Share capital and premium	8	524.9	676.9	2 800.0	2 800.0
Other reserves	9	92.0	52.3	-	-
Retained earnings	10	1 688.5	1 330.4	0.1	0.2
		<b>2 305.4</b>	2 059.6	<b>2 800.1</b>	2 800.2
<b>Non-current liabilities</b>					
Interest-bearing borrowings	11	1.0	1.7	-	-
Deferred taxation	12	20.9	12.0	-	-
Retirement benefits	13	75.8	72.4	-	-
		<b>97.7</b>	86.1	-	-
<b>Current liabilities</b>					
Trade and other payables	14	283.5	225.2	1.3	1.9
Taxation		159.8	125.6	-	-
Current portion of interest-bearing borrowings	11	0.8	7.2	-	-
Overdrafts and short-term interest-bearing borrowings	15	132.8	172.0	-	-
		<b>576.9</b>	530.0	<b>1.3</b>	1.9
<b>Total equity and liabilities</b>		<b>2 980.0</b>	2 675.7	<b>2 801.4</b>	2 802.1

# income statements

for the year ended 31 March 2006

	Notes	Group		Company	
		2006 Rm	2005 Rm	2006 Rm	2005 Rm
<b>Revenue</b>		<b>2 874.5</b>	2 511.2	-	-
Merchandise sales		<b>1 567.8</b>	1 351.9	-	-
Finance charges earned		<b>674.4</b>	605.0	-	-
Insurance premiums earned	16	<b>400.4</b>	357.6	-	-
Services rendered		<b>231.9</b>	196.7	-	-
<b>Cost of merchandise sales</b>	17	<b>(1 020.6)</b>	(885.0)	-	-
<b>Operating costs</b>		<b>(1 183.7)</b>	(1 043.5)	<b>(3.3)</b>	(2.4)
Employment costs	18.1	<b>(439.9)</b>	(406.0)	-	-
Share-based payments	18.2	<b>(58.7)</b>	(10.8)	-	-
Administration and IT		<b>(152.3)</b>	(134.5)	-	-
Bad debts and impairment provision	19	<b>(115.5)</b>	(101.6)	-	-
Marketing		<b>(89.1)</b>	(79.6)	-	-
Occupancy costs		<b>(98.3)</b>	(87.9)	-	-
Transport and travel		<b>(98.4)</b>	(85.6)	-	-
Depreciation		<b>(35.0)</b>	(36.9)	-	-
Other operating costs		<b>(96.5)</b>	(100.6)	<b>(3.3)</b>	(2.4)
<b>Operating profit</b>	21	<b>670.2</b>	582.7	<b>(3.3)</b>	(2.4)
Investment income	22	<b>28.9</b>	37.6	<b>165.2</b>	63.6
<b>Profit before finance costs</b>		<b>699.1</b>	620.3	<b>161.9</b>	61.2
Interest received	23.2	<b>5.9</b>	12.1	-	-
Interest paid	23.1	<b>(18.7)</b>	(54.8)	-	-
<b>Profit before taxation</b>		<b>686.3</b>	577.6	<b>161.9</b>	61.2
Taxation	24	<b>(237.6)</b>	(182.4)	-	-
<b>Net profit attributable to ordinary shareholders</b>		<b>448.7</b>	395.2	<b>161.9</b>	61.2
Earnings per share (cents)	25	<b>461.2</b>	395.2		
Diluted earnings per share (cents)	25	<b>460.2</b>	395.2		
Dividends paid per share (cents)		<b>162.0</b>	61.0		
Dividends declared per share (cents)		<b>225.0</b>	135.0		

# statements of changes in equity

for the year ended 31 March 2006

	Notes	Share capital and premium	Other reserves	Retained earnings	Total
		Rm	Rm	Rm	Rm
<b>Group</b>					
<b>Balance at 1 April 2004</b>		<b>300.9</b>	<b>12.4</b>	<b>998.4</b>	<b>1 311.7</b>
Issue of shares		376.0	–	–	<b>376.0</b>
Net profit attributable to ordinary shareholders		–	–	395.2	<b>395.2</b>
Fair value adjustments of available-for-sale investments, net of tax		–	32.0	–	<b>32.0</b>
Disposal of available-for-sale investments recognised		–	(2.2)	–	<b>(2.2)</b>
Share-based payment		–	10.8	–	<b>10.8</b>
Transfer to contingency reserve		–	2.2	(2.2)	–
Foreign currency translation reserve movement		–	(2.9)	–	<b>(2.9)</b>
Dividends paid	26	–	–	(61.0)	<b>(61.0)</b>
<b>Balance at 31 March 2005</b>		<b>676.9</b>	<b>52.3</b>	<b>1 330.4</b>	<b>2 059.6</b>
Net profit attributable to ordinary shareholders		–	–	448.7	<b>448.7</b>
Fair value adjustments of available-for-sale investments, net of tax		–	61.4	–	<b>61.4</b>
Disposal of available-for-sale investments recognised		–	(4.8)	–	<b>(4.8)</b>
Available-for-sale asset impaired		–	12.3	–	<b>12.3</b>
Share-based payment		–	58.7	–	<b>58.7</b>
Transfer of share-based payment reserve to retained income on vesting		–	(69.2)	69.2	–
Cost of treasury shares acquired					
Share repurchase programme		(151.9)	–	–	<b>(151.9)</b>
Share trust		(0.3)	–	–	<b>(0.3)</b>
Cost of share awards to employees		0.2	–	(0.2)	–
Profit on sale of own shares		–	–	2.3	<b>2.3</b>
Transfer to contingency reserve		–	5.0	(5.0)	–
Foreign currency translation reserve movement		–	(23.7)	–	<b>(23.7)</b>
Dividends paid	26	–	–	(156.9)	<b>(156.9)</b>
<b>Balance at 31 March 2006</b>		<b>524.9</b>	<b>92.0</b>	<b>1 688.5</b>	<b>2 305.4</b>
<b>Company</b>					
Issue of shares	8	2 800.0	–	–	<b>2 800.0</b>
Net profit attributable to ordinary shareholders		–	–	61.2	<b>61.2</b>
Dividends paid	26	–	–	(61.0)	<b>(61.0)</b>
<b>Balance at 31 March 2005</b>		<b>2 800.0</b>	<b>–</b>	<b>0.2</b>	<b>2 800.2</b>
Net profit attributable to ordinary shareholders		–	–	161.9	<b>161.9</b>
Dividends paid	26	–	–	(162.0)	<b>(162.0)</b>
<b>Balance at 31 March 2006</b>		<b>2 800.0</b>	<b>–</b>	<b>0.1</b>	<b>2 800.1</b>

# cash flow statements

for the year ended 31 March 2006

	Notes	Group		Company	
		2006 Rm	2005 Rm	2006 Rm	2005 Rm
<b>Cash flow from operating activities</b>					
Cash generated from operations	27.1	<b>593.2</b>	625.2	<b>(3.9)</b>	(0.5)
Dividends and interest received		<b>41.3</b>	46.9	<b>165.2</b>	63.6
Finance costs		<b>(18.7)</b>	(319.9)	-	-
Taxation paid	27.2	<b>(244.4)</b>	(207.7)	-	-
<b>Cash retained from operating activities</b>		<b>371.4</b>	144.5	<b>161.3</b>	63.1
<b>Cash utilised in investing activities</b>					
Net additions to insurance business investments		<b>(12.8)</b>	(23.7)	-	-
Loans to subsidiary companies		-	-	<b>0.7</b>	(2.1)
Acquisition of property, plant and equipment		<b>(39.8)</b>	(37.4)	-	-
Proceeds on disposal of property, plant and equipment		<b>7.1</b>	8.1	-	-
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(45.5)</b>	(53.0)	<b>0.7</b>	(2.1)
<b>Cash effects of financing activities</b>					
Purchase of treasury shares		<b>(152.2)</b>	-	-	-
Dividends paid		<b>(156.9)</b>	(61.0)	<b>(162.0)</b>	(61.0)
Proceeds on sale of own shares		<b>2.3</b>	-	-	-
Amount owing to holding company		-	(500.0)	-	-
Finance lease liability		<b>(7.1)</b>	(6.0)	-	-
<b>Net cash outflow from financing activities</b>		<b>(313.9)</b>	(567.0)	<b>(162.0)</b>	(61.0)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>12.0</b>	(475.5)	-	-
Cash and cash equivalents at the beginning of the year		<b>(116.7)</b>	358.8	-	-
<b>Cash and cash equivalents at the end of the year</b>	27.3	<b>(104.7)</b>	(116.7)	-	-

# notes to the annual financial statements

for the year ended 31 March 2006

## 1 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which have been recognised at their fair value, and in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act. These are the group's first financial statements prepared in compliance with IFRS. In prior years, the financial statements were prepared in accordance with South African Statements of Generally Accepted Accounting Practice (SA GAAP).

Being a first time adopter of IFRS, the date of transition is 1 April 2004. The opening balance sheet on 1 April 2004 and the comparative information for 2005 have been restated. The effect of the adoption of IFRS has been fully detailed in annexure A entitled "Transition to International Financial Reporting Standards".

The relevant mandatory IFRS statements have been adopted for the current financial year. The following standards and interpretations, which have been issued but which are not yet effective, have not been applied in these financial statements:

IAS 19 amendment: Employee Benefits

IAS 21 amendment: Net Investment in Foreign Operations

IAS 39 amendment: Fair Value Option

IFRS 7 and IAS 1 (amendment): Financial Instruments – Capital Disclosures

IFRIC 8: Scope of IFRS 2

Management have 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.

The preparation of the financial statements necessitates the use of estimates, assumptions and judgements. Estimates are based on management's knowledge and judgement of the current circumstances at the balance sheet date. For further information on critical estimates and judgements, refer to note 2.

### 1.1 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.

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.

### 1.2 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.

### 1.3 Foreign currency translations

#### 1.3.1 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 group and company's functional and presentation currency.

# notes to the annual financial statements *... continued*

for the year ended 31 March 2006

## 1.3.2 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. Resultant exchange profits and losses are recognised in the income statement.

## 1.3.3 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. On disposal of a foreign subsidiary, such translation differences are recognised in the income statement as a gain or loss of the sale.

## 1.4 Financial instruments

### 1.4.1 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits reduced by amounts in overdraft. These are carried at amortised cost.

### 1.4.2 Derivative instruments

Derivative instruments (forward exchange contracts) are utilised to hedge exposure to foreign currency fluctuations. Despite the derivative instrument providing an effective economic hedge, changes in the fair value of these derivative instruments are recognised immediately in the income statement.

### 1.4.3 Financial assets

Investments are classified into three classes, based on the purpose for which the investment was acquired. The classification is determined at the time of the investment and re-evaluated thereafter on a regular basis.

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 for the purpose of selling in the short term or the asset is specifically designated by management. These assets are classified as current assets where expected to be realised within twelve months of balance sheet date.
- (ii) Financial assets acquired with the intention of being held indefinitely are classified as available-for-sale and included in non-current assets. Where management has the express intention of holding the financial asset for less than twelve months from the balance sheet date, these are classified as current assets.
- (iii) Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturities acquired with the intention to hold to maturity. Held-to-maturity investments are carried at amortised cost using the effective interest rate method.

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. Both the assets designated as fair value through profit and loss and available-for-sale assets are carried at fair value and valued by reference to quoted bid prices at the close of business on the balance sheet date or, where appropriate, by discounted cash flow.

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.

# notes to the annual financial statements *... continued*

for the year ended 31 March 2006

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.

#### 1.4.4 Trade and other receivables

Trade receivables are recognised 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 effective interest rate. Changes in the provision are recognised in the income statement.

#### 1.4.5 Financial liabilities

Financial liabilities are recognised at amortised cost, being original debt value less principal payments and amortisations, except for derivatives which are accounted for in accordance with 1.4.2.

#### 1.4.6 Set-off

Where there is a legally enforceable right of set-off between a financial asset and liability, and settlement is intended to take place on a net basis or simultaneously, such financial asset and financial liability are offset.

### 1.5 Property, plant and equipment

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

Subsequent expenditure is capitalised when it is probable that future economic benefits will arise. 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 5 years

Land is not depreciated.

### 1.6 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.

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.

# notes to the annual financial statements *... continued*

for the year ended 31 March 2006

## 1.7 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.

## 1.8 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.

## 1.9 Deferred taxation

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 taxation is calculated at currently enacted rates of taxation. 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.

## 1.10 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.

## 1.11 Insurance business

### 1.11.1 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 insured contingencies that occurred before the close of the accounting period, but which had not been reported by that date.

### 1.11.2 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.

### 1.11.3 Provision for unearned premiums

The provision for unearned premiums represents that part of the current year's premiums relating to risk periods that extend to the subsequent years.

## 1.12 Segmental information

The principal segments of the group have been identified on a primary basis by the principal revenue-producing activities of the group and on a secondary basis by significant geographical region. The source and nature of business risks are segmented on the same basis. Assets, liabilities, revenues and expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so. The accounting policies are consistently applied in determining the segmental information.

## 1.13 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 24 months but are classified as current as they form part of the normal operating cycle.

# notes to the annual financial statements *... continued*

for the year ended 31 March 2006

## 1.14 Share capital

Ordinary shares are classified as equity. 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.

## 1.15 Employee benefits

### 1.15.1 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 project 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 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.

### 1.15.2 Post-retirement health care 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.

### 1.15.3 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 vesting conditions. Non-market vesting conditions are included in the assumptions about the number of options that are expected to become exercisable. 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.

### 1.15.4 Provision for leave pay

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

# notes to the annual financial statements *... continued*

for the year ended 31 March 2006

## 1.16 Borrowings

Borrowings are recognised initially at fair value and subsequently at amortised cost. Borrowings are classified as current liabilities unless the group has an unconditional liability for at least 12 months after the balance sheet date.

## 1.17 Trading cycle

The group's trading cycle, consistent with prior financial periods, ends on the 5th day after the month being reported on, unless such day falls on a Sunday, in which case it ends on the 4th day.

## 1.18 Revenue recognition

Revenue 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.

Revenue from the sale of merchandise is recognised on the date of delivery. Insurance premiums are recognised on a time proportionate basis over the period of the contract, after an appropriate allowance is made for commission and reinsurance cost. Finance charges are recognised, on a sum-of-digits basis which closely approximates the effective yield basis, as instalments become due. Revenue from maintenance contracts is recognised over a 24-month period to ensure a reasonable profit margin. Revenue from the provision of other services is recognised when the services are rendered.

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

## 2 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:

### 2.1 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 customer's 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.

### 2.2 Bad debts

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

### 2.3 Share-based payment

As a consequence of the former ultimate holding company, GUS plc disposing of its controlling interest in Lewis and the resulting vesting of share awards and options in terms of the rules of the scheme, a share-based payment charge of R58.4 million was incurred. 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.

### 2.4 Normal and deferred taxation

Deferred tax assets are recognised on the basis described in note 1.9. 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.

### 2.5 Retirement benefits

The underlying actuarial assumptions are set out in note 13.

# notes to the annual financial statements *... continued*

for the year ended 31 March 2006

	Land and buildings Rm	Leased equipment Rm	Vehicles & fixtures Rm	Total Rm
<b>3 Property, plant and equipment Group</b>				
<b>As at 31 March 2006</b>				
Opening net carrying value	83.7	2.2	73.6	159.5
Additions	0.5	–	39.3	39.8
Disposals	–	–	(1.1)	(1.1)
Depreciation	(0.7)	(1.8)	(32.5)	(35.0)
Closing net carrying value	83.5	0.4	79.3	163.2
Cost	86.6	67.6	251.2	405.4
Accumulated depreciation	(3.1)	(67.2)	(171.9)	(242.2)
<b>As at 31 March 2005</b>				
Opening net carrying value	84.7	7.3	71.0	163.0
Additions	1.2	–	36.2	37.4
Disposals	(1.5)	(0.5)	(2.0)	(4.0)
Depreciation	(0.7)	(4.6)	(31.6)	(36.9)
Closing net carrying value	83.7	2.2	73.6	159.5
Cost	86.1	67.6	226.5	380.2
Accumulated depreciation	(2.4)	(65.4)	(152.9)	(220.7)
Computer equipment, with a carrying value of R0.4 million (2005: R2.2 million) acts as security for finance lease liabilities – refer capitalised finance lease liabilities note 11. 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 *... continued*

for the year ended 31 March 2006

		Group		Company	
		2006	2005	2006	2005
		Rm	Rm	Rm	Rm
4	<b>Investments – insurance business</b>				
	<b>Carrying value and market value</b>				
	Listed investments				
	Listed shares – available-for-sale	159.4	115.1		
	Investment policy – available-for-sale	64.0	56.5		
	Gilts – available-for-sale	254.6	229.0		
	Unlisted Investments				
	Money market – held-to-maturity (at director's valuation)	111.9	105.2		
		589.9	505.8		
	Analysed as follows				
	Long term	478.0	400.6		
	Short term	111.9	105.2		
		589.9	505.8		
	<b>Movement for the year</b>				
	Beginning of the year	505.8	442.9		
	Net additions to investments	18.6	26.5		
	Movement in fair value transferred to equity	65.5	36.4		
	End of the year	589.9	505.8		
	A register of listed investments is available for inspection at the company's registered office. Details of the nature of the investment policy appears in note 28. Regular purchases and sales of financial assets are accounted for on the trade date.				
5	<b>Interest in subsidiaries</b>				
	Shares at cost	–	–	2 800.0	2 800.0
	Indebtedness	–	–	1.4	2.1
		–	–	2 801.4	2 802.1
	Details of investments in and indebtedness by subsidiaries is given in Annexure B.				
6	<b>Inventories</b>				
	Cost of merchandise	233.2	171.7		
	Less: provision for obsolescence	(20.6)	(15.9)		
		212.6	155.8		

# notes to the annual financial statements *... continued*

for the year ended 31 March 2006

		Group		Company	
		2006	2005	2006	2005
		Rm	Rm	Rm	Rm
7	<b>Trade and other receivables</b>				
	Instalment sale and loan receivables	2 921.4	2 677.1		
	Provision for unearned finance charges and unearned maintenance income	(508.0)	(414.4)		
	Provision for impairment	(368.0)	(385.4)		
	Provision for unearned insurance premiums	(184.8)	(154.4)		
	Unearned insurance premiums	(300.9)	(254.9)		
	Less: re-insurer's share of unearned premiums	116.1	100.5		
	Net instalment sale and loan receivables	1 860.6	1 722.9		
	Other receivables	35.9	27.7		
		1 896.5	1 750.6		
	Amounts due from instalment sale and loan receivables after 1 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 24 months.				
8	<b>Share capital and premium</b>				
8.1	<b>Authorised</b>				
	150 000 000 ordinary shares of 1c each	1.0	1.0	1.5	1.5
8.2	<b>Issued</b>				
	100 000 000 ordinary shares of 1c each	0.9	0.9	1.0	1.0
	Share premium	676.0	676.0	2 799.0	2 799.0
		676.9	676.9	2 800.0	2 800.0
	Treasury shares:				
	Lewis Stores (Pty) Ltd	(151.9)	–	–	–
	Lewis Employee Share Incentive Scheme Trust	(0.1)	–	–	–
	Total share capital and premium	524.9	676.9	2 800.0	2 800.0
	Lewis Stores (Pty) Ltd acquired shares on the open market in terms of the authority granted by shareholders at the annual general meeting held on 5 August 2005. The average price paid for these shares was R44.86, with the lowest price being R41.75 and the highest R55.80.				
		000's	000's	000's	000's
8.3	<b>Number of ordinary shares in issue</b>				
	Number of shares issued	100 000	100 000		
	Treasury shares held by:				
	Lewis Stores (Pty) Ltd	(3 365)	–		
	Lewis Employee Share Incentive Scheme Trust	(1 566)	–		
	Number of shares in issue	95 069	100 000		

# notes to the annual financial statements *... continued*

for the year ended 31 March 2006

		Group		Company	
		2006	2005	2006	2005
		Rm	Rm	Rm	Rm
9	<b>Other reserves</b>				
	Comprising:				
	Fair value reserve	89.5	20.6		
	Foreign currency translation reserve	(26.6)	(2.9)		
	Share-based payment reserve	0.3	10.8		
	Other	0.8	0.8		
		64.0	29.3		
	Statutory insurance contingency reserve	28.0	23.0		
		92.0	52.3		
	Detailed movements in the other reserves are disclosed in the statement of changes in equity.				
10	<b>Retained Earnings</b>				
	Comprising:				
	Company	0.1	0.2	0.1	0.2
	Consolidated subsidiaries	1 688.4	1 330.2	–	–
		1 688.5	1 330.4	0.1	0.2
	Distribution by certain foreign subsidiaries will give rise to withholding taxes of R20.4 million (2005: R34.8 million). No provision is raised until dividends are declared.				
11	<b>Interest-bearing borrowings</b>				
	Capitalised finance leases secured by computer equipment with a net book value of R0.4 million (2005: R2.2 million), bearing interest at rates linked to prime, repayable annually over periods of 2 years	1.8	8.9		
	Current portion of capitalised finance lease	(0.8)	(7.2)		
		1.0	1.7		
	<b>Total interest-bearing borrowings</b>	1.8	8.9		
	Long-term portion of interest-bearing borrowings	1.0	1.7		
	Current portion of interest-bearing borrowings	0.8	7.2		

# notes to the annual financial statements *... continued*

for the year ended 31 March 2006

		Group		Company	
		2006 Rm	2005 Rm	2006 Rm	2005 Rm
12	<b>Deferred taxation</b>				
	Balance at the beginning of the year	(36.7)	25.2		
	<b>Movement for the year attributable to:</b>				
	Income statement credit	(41.0)	(68.5)		
	Deferred tax on fair value adjustment in equity	8.9	6.6		
	<b>Balance at the end of the year</b>	<b>(68.8)</b>	(36.7)		
	<b>This balance comprises:</b>				
	Capital allowances	35.9	27.7		
	Debtors allowances	(68.5)	(30.0)		
	Income and expense recognition	1.7	0.2		
	Other provisions	(37.9)	(34.6)		
	<b>Balance at the end of the year</b>	<b>(68.8)</b>	(36.7)		
	Disclosed as:				
	<b>Deferred tax asset</b>	<b>(89.7)</b>	(48.7)		
	<b>Deferred tax liability</b>	<b>20.9</b>	12.0		
		<b>(68.8)</b>	(36.7)		
13	<b>Retirement benefits</b>				
	<b>Amounts recognised in the balance sheet</b>				
	Defined benefit retirement plan liability	34.6	37.7		
	Post-retirement healthcare benefits	41.2	34.7		
		<b>75.8</b>	72.4		
	<b>Retirement plans</b>				
	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.				

# notes to the annual financial statements *... continued*

for the year ended 31 March 2006

		Group		Company													
		2006	2005	2006	2005												
		Rm	Rm	Rm	Rm												
13	<b>Retirement benefits</b> <i>continued</i>																
	The number of employees on these plans are as follows:																
	<table border="1"> <thead> <tr> <th>Fund</th> <th>No of staff</th> </tr> </thead> <tbody> <tr> <td>Lewis Stores Group Pension Fund</td> <td>361</td> </tr> <tr> <td>Lewis Stores Retirement Pension Fund</td> <td>25</td> </tr> <tr> <td>SACCAWU Provident Fund</td> <td>595</td> </tr> <tr> <td>Lewis Stores Provident Fund</td> <td>2 764</td> </tr> <tr> <td>Lewis Stores Namibia Provident Fund</td> <td>102</td> </tr> </tbody> </table>	Fund	No of staff	Lewis Stores Group Pension Fund	361	Lewis Stores Retirement Pension Fund	25	SACCAWU Provident Fund	595	Lewis Stores Provident Fund	2 764	Lewis Stores Namibia Provident Fund	102				
Fund	No of staff																
Lewis Stores Group Pension Fund	361																
Lewis Stores Retirement Pension Fund	25																
SACCAWU Provident Fund	595																
Lewis Stores Provident Fund	2 764																
Lewis Stores Namibia Provident Fund	102																
	<b>Defined benefit plans</b>																
	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 IAS19 using the projected unit credit method. The latest valuation was carried out as at 1 January 2006.																
	<b>Amounts recognised in the balance sheet</b>																
	Present value of obligations	269.9	242.5														
	Fair value of plan assets	(252.2)	(213.6)														
		17.7	28.9														
	Unrecognised actuarial gains	16.9	8.8														
	Defined benefit retirement plan liability	34.6	37.7														
	<b>Amounts recognised in the income statement</b>																
	Current service cost	8.9	9.2														
	Interest cost	21.4	20.1														
	Expected return on plan assets	(20.0)	(17.5)														
	Net actuarial losses recognised in the year	2.3	–														
	Total included in staff costs	12.6	11.8														
	<b>Movement in retirement benefit liability</b>																
	Present value at the beginning of the year	37.7	44.2														
	Income statement charge	12.6	11.8														
	Contributions paid during the year	(15.7)	(18.3)														
	Present value at the end of the year	34.6	37.7														

# notes to the annual financial statements *... continued*

for the year ended 31 March 2006

	Group		Company	
	2006 Rm	2005 Rm	2006 Rm	2005 Rm
13 <b>Retirement benefits</b> <i>continued</i>				
<b>Principal actuarial assumptions used were as follows:</b>				
Discount rate	7.5%	9.0%		
Expected return on plan assets	9.0%	9.5%		
Inflation rate	4.5%	6.0%		
Future salary increases	5.5%	7.0%		
Future pension increases	4.5%	6.0%		
Actual return on plan assets	14.8%	10.3%		
<b>Defined contribution plans</b>				
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	14.7	13.5		
<b>Post-retirement healthcare benefits</b>				
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 2006 by a qualified actuary in accordance with the requirements of IAS19. The group has a commitment to meet these unfunded benefits.				
<b>Amounts recognised in the income statement</b>				
Current service cost	0.6	0.7		
Interest cost	2.6	2.4		
Actuarial loss	5.4	2.5		
Income statement charge	8.6	5.6		
<b>Defined benefit plans</b>				
<b>Movement in post-retirement healthcare liability</b>				
Present value of liability at the beginning of the year	34.7	31.0		
Charged to income statement	8.6	5.6		
Employer benefit payments	(2.1)	(1.9)		
Post-retirement healthcare benefits liability	41.2	34.7		
<b>Principal actuarial assumptions used were as follows:</b>				
Health care inflation rate	4.5%	4.0%		
CPI inflation	4.5%	4.0%		
Discount rate	7.5%	8.5%		
Average retirement age (years)	63	63		

# notes to the annual financial statements *... continued*

for the year ended 31 March 2006

		Group		Company	
		2006	2005	2006	2005
		Rm	Rm	Rm	Rm
14	<b>Trade and other payables</b>				
	Trade payables	110.2	74.9	-	-
	Accruals and other payables	83.2	72.8	1.3	1.9
	Due to reinsurers	66.9	57.9	-	-
	Insurance provisions	23.2	19.6	-	-
		283.5	225.2	1.3	1.9
15	<b>Overdrafts and short-term interest-bearing borrowings</b>				
	These borrowings are unsecured. The average closing interest rate on these borrowings was 7.2%	132.8	172.0		
		132.8	172.0		
16	<b>Insurance premiums earned</b>				
	Gross insurance income	566.1	501.0		
	Reinsurance premiums	(165.7)	(143.4)		
		400.4	357.6		
17	<b>Cost of merchandise sales</b>				
	Purchases	1 077.4	889.3		
	Movement in inventory	(56.8)	(4.3)		
	Cost of merchandise sales	1 020.6	885.0		
	Merchandise gross profit	547.2	466.9		
18	<b>Directors and employees</b>				
18.1	<b>Employment costs</b>				
	Salaries, wages, commissions and bonuses	398.3	371.8		
	Retirement benefit costs	35.9	30.9		
	Other employment costs	5.7	3.3		
		439.9	406.0		

# notes to the annual financial statements *... continued*

for the year ended 31 March 2006

	Group		Company	
	2006 Rm	2005 Rm	2006 Rm	2005 Rm
18 <b>Directors and employees</b> <i>continued</i>				
18.2 <b>Share-based payments</b>				
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 shares and options are measured at the grant date using the Black-Scholes model.				
On 26 May 2005, the former ultimate holding company GUS plc indirectly sold its controlling interest in the Lewis Group. This sale resulted in a change in control and in terms of the scheme rules, the awards and options vested immediately. The share price at the date of vesting was R34.				
In terms of IFRS 2, notwithstanding that the awards and options were granted at no cost to Lewis by GUS group, 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:				
Charge relating to grants made at date of listing	<b>58.4</b>	10.8		
– in respect of unvested share awards and options	<b>1.5</b>	10.8		
– vesting of share awards and options resulting from the disposal of its controlling interest by GUS group on 26 May 2005	<b>56.9</b>	–		
Options granted subsequent to 26 May 2005	<b>0.3</b>	–		
Total share-based payment	<b>58.7</b>	10.8		
	<b>R</b>	R		
Significant assumptions used were:				
Weighted average share price	<b>41.64</b>	29.85		
Weighted average exercise price (for options only)	<b>41.60</b>	28.00		
Weighted average expected volatility	<b>28.0%</b>	28.3%		
Weighted average expected dividend yield	<b>3.6%</b>	3.9%		
Weighted average risk-free rate (bond yield curve at date of grant)	<b>7.9%</b>	8.8%		
The expected volatility for the share awards and options granted at the date of listing was based on a weighted average of the volatilities of similar listed entities. The volatilities for the options granted subsequent to 26 May 2005 were based on the volatility of Lewis's share price from the date of listing to the date of granting the option.				

# notes to the annual financial statements *... continued*

for the year ended 31 March 2006

	Group		Company	
	2006	2005	2006	2005
18 <b>Directors and employees</b> <i>continued</i>				
18.3 <b>Share incentive schemes</b>				
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.				
Employees receive their share awards and options if they have been in continued employment with the group until the vesting date. Share awards vest between 2 and 5 years of grant date. In respect of options, these vest between 3 and 5 years and must be exercised within 10 years after been granted. In terms of the scheme's rules, the share awards and options vest immediately, should there be a change in control.				
The GUS group made available 4% of its shareholding in the group for no consideration in order to meet the commitment of the share incentive schemes to deliver to the participants as a result of the immediate vesting of the share awards and options as a consequence of the disposal of their controlling interest.				
	<b>No. of shares and options</b>			
<b>Lewis All Employee Share Scheme</b>				
Beginning of year	<b>1 101 254</b>	–		
Granted	<b>1 888</b>	1 196 379		
Forfeited	<b>(51 825)</b>	(95 125)		
Vested	<b>(1 051 317)</b>	–		
End of year	–	1 101 254		
<b>Lewis Executive IPO Restricted Share Scheme</b>				
Beginning of year	<b>1 326 448</b>	–		
Granted	<b>5 714</b>	1 379 334		
Forfeited	<b>(32 702)</b>	(52 886)		
Vested	<b>(1 299 460)</b>	–		
End of year	–	1 326 448		

# notes to the annual financial statements *... continued*

for the year ended 31 March 2006

	Group		Company	
	2006	2005	2006	2005
	No. of shares and options			
18 <b>Directors and employees</b> <i>continued</i>				
18.3 <b>Share incentive schemes</b> <i>continued</i>				
<b>Lewis Executive Share Option Scheme</b>				
Beginning of year	<b>807 829</b>	–		
Granted	<b>188 276</b>	822 850		
Forfeited	<b>(71 132)</b>	(15 021)		
Exercised by payment of consideration	<b>(83 711)</b>	–		
End of year	<b>841 262</b>	807 829		
	<b>R</b>	R	<b>R</b>	R
Average exercise price of outstanding options				
Options granted in 2005	<b>28.00</b>	28.00		
Options granted in 2006	<b>41.60</b>	–		
18.4 <b>Directors' emoluments</b>				
<b>Non-executive directors</b>				
Fees as directors				
D M Nurek			<b>225 000</b>	160 000
H Saven			<b>215 000</b>	128 000
B van der Ross			<b>130 000</b>	89 000
F Abrahams			<b>67 000</b>	–
D Tyler (payable to GUS Holdings BV)			<b>43 500</b>	97 000
Executive director – A J Smart (paid by subsidiary)			<b>3 555 550</b>	3 362 747
Salary			<b>1 690 000</b>	1 536 000
Bonuses			<b>1 444 670</b>	1 436 000
Contributions to pension scheme			<b>270 400</b>	245 760
Contribution to medical aid			<b>32 736</b>	30 939
Other material benefits			<b>117 744</b>	114 048
<b>Share awards and options granted</b>				
A J Smart was awarded 219 428 free shares and 219 428 options with an exercise price of R28 on 4 October 2004. These were due to vest evenly in 3, 4 and 5 years from the date of the award. As a consequence of the disposal of its controlling interest by the former holding company, the share awards and options vested immediately. A J Smart agreed in terms of a written undertaking not to dispose of any shares he may become entitled to under these awards prior to 1 October 2007.				

# notes to the annual financial statements *... continued*

for the year ended 31 March 2006

		Group		Company	
		2006	2005	2006	2005
		Rm	Rm	Rm	Rm
19	<b>Bad debts and impairment provision</b>				
	Bad debts, bad debt recoveries and repossession losses	132.9	125.3		
	Movement in impairment provision	(17.4)	(23.7)		
		115.5	101.6		
20	<b>Lease commitments</b>				
	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:	175.7	167.6		
	Within one year	63.9	67.2		
	Two to five years	109.6	99.5		
	Over five years	2.2	0.9		
	Payments on a straight-line basis:	169.4	158.7		
	Within one year	64.0	64.8		
	Two to five years	103.5	93.1		
	Over five years	1.9	0.8		
21	<b>Operating profit is stated after</b>				
	Surplus on disposal of property, plant and equipment	6.0	4.1		
	<b>Depreciation</b>				
	Owned assets	33.2	32.3		
	Leased assets	1.8	4.6		
		35.0	36.9		
	<b>Fees payable:</b>				
	Investment management fee – insurance investments	1.4	1.2		
	Outsourcing of IT function	24.4	22.9		
		25.8	24.1		
	<b>Operating leases – premises</b>				
	Operating lease payments on a cash flow basis	80.9	72.0		
	Lease adjustment	(2.5)	(1.3)		
	Operating leases on a straight-line basis	78.4	70.7		
	<b>Auditors' remuneration</b>				
	Audit fees – current year	1.0	0.8	0.1	0.1
	– prior year under provision	0.1	0.1	–	–
	Other services	0.7	0.7	–	–
		1.8	1.6	0.1	0.1

# notes to the annual financial statements *... continued*

for the year ended 31 March 2006

		Group		Company	
		2006	2005	2006	2005
		Rm	Rm	Rm	Rm
22	<b>Investment income</b>				
	Interest – insurance business	30.8	31.3	–	–
	Dividends from listed investments – insurance business	4.6	3.5	–	–
	Realised profit on disposal of insurance investments	5.8	2.8	–	–
	Impairment of available-for-sale investments	(12.3)	–	–	–
	Dividends – unlisted subsidiaries	–	–	165.2	63.6
		28.9	37.6	165.2	63.6
23	<b>Net finance costs</b>				
23.1	<b>Interest paid</b>				
	Capitalised finance leases	0.2	0.9		
	Fellow subsidiary	–	32.8		
	Bank loans, overdrafts and other	12.5	16.9		
	Forward exchange contracts	6.0	4.2		
		18.7	54.8		
23.2	<b>Interest earned</b>				
	Bank	5.9	12.0		
	Other	–	0.1		
		5.9	12.1		
		12.8	42.7		
24	<b>Taxation</b>				
24.1	<b>Taxation charge</b>				
	South Africa	224.2	170.7		
	Foreign	13.4	11.7		
	Taxation per income statement	237.6	182.4		
	<b>Comprising:</b>				
	Normal taxation				
	Current year	261.1	215.8		
	Prior year	(2.2)	29.2		
	Deferred taxation				
	Current year	(42.0)	(39.6)		
	Prior year	(0.8)	(28.9)		
	Rate change	1.8	–		
	Secondary Tax on Companies	19.7	5.9		
	Taxation per income statement	237.6	182.4		

# notes to the annual financial statements *... continued*

for the year ended 31 March 2006

		Group		Company	
		2006	2005	2006	2005
		Rm	Rm	Rm	Rm
24	<b>Taxation</b> <i>continued</i>				
24.2	<b>The rate of taxation on profit is reconciled as follows:</b>				
	Profit before taxation	<b>686.3</b>	577.6	<b>161.9</b>	61.2
	Taxation calculated at a tax rate of 29% (2005: 30%)	<b>199.0</b>	173.4	<b>47.0</b>	18.4
	Disallowed expenditure / (exempt income)	<b>20.1</b>	2.8	<b>(47.0)</b>	(18.4)
	Secondary Tax on Companies	<b>19.7</b>	5.9	–	–
	Prior years	<b>(3.0)</b>	0.3	–	–
	Rate change	<b>1.8</b>	–	–	–
	Taxation per income statement	<b>237.6</b>	182.4	–	–
	Effective taxation rate	<b>34.6%</b>	31.6%	–	–
25	<b>Earnings per share</b>				
25.1	<b>Weighted average number of shares</b>	<b>000's</b>	000's		
	Weighted average shares for earnings and headline earnings per share	<b>97 300</b>	100 000		
	Dilution resulting from options outstanding	<b>201</b>	–		
	Weighted average shares for diluted earnings and headline earnings per share	<b>97 501</b>	100 000		
	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	<b>Headline earnings</b>	<b>Rm</b>	Rm		
	Attributable earnings	<b>448.7</b>	395.2		
	Profit on disposal of property, plant and equipment	<b>(6.0)</b>	(3.9)		
	Profit on disposal of available-for-sale investments	<b>(5.8)</b>	(2.8)		
	Impairment of available-for-sale investments	<b>12.3</b>	–		
	Taxation	<b>2.8</b>	1.6		
	Headline earnings	<b>452.0</b>	390.1		

# notes to the annual financial statements *... continued*

for the year ended 31 March 2006

		Group		Company	
		2006 Cents	2005 Cents	2006 Cents	2005 Cents
25	<b>Earning per share</b> <i>continued</i>				
25.3	<b>Earnings per share</b>				
	Earnings per share	461.2	395.2		
	Fully diluted earnings per share	460.2	395.2		
25.4	<b>Headline earnings per share</b>				
	Headline earnings per share	464.5	390.1		
	Fully diluted headline earnings per share	463.6	390.1		
26	<b>Dividends paid</b>	Rm	Rm	Rm	Rm
	Dividend no.1 declared on 15 November 2004 and paid on 31 January 2005	–	61.0	–	61.0
	Dividend no.2 declared on 16 May 2005 and paid on 25 July 2005	74.0	–	74.0	–
	Dividend no.3 declared on 14 November 2005 and paid on 30 January 2006	88.0	–	88.0	–
	Dividends received on treasury shares:				
	Lewis Stores (Pty) Ltd	(2.5)	–	–	–
	Lewis Employee Share Incentive Scheme Trust	(2.6)	–	–	–
		156.9	61.0	162.0	61.0
27	<b>Notes to the cash flow statements</b>				
27.1	<b>Cash generated from operations</b>				
	Operating profit	670.2	582.7	(3.3)	(2.4)
	Adjusted for:				
	Share-based payments	58.7	10.8	–	–
	Depreciation and amortisation	35.0	36.9	–	–
	Surplus on disposal of property, plant and equipment	(6.0)	(3.9)	–	–
	Movement in debtors impairment provision	(17.4)	(23.7)	–	–
	Movement in retirement benefits provision	3.4	(2.8)	–	–
	Movement in other provisions	9.8	10.7	–	–
	Changes in working capital:				
	Increase in inventories	(62.0)	(5.5)	–	–
	(Increase)/decrease in trade and other receivables	(152.2)	21.9	–	–
	Increase/(decrease) in trade and other payables	53.7	(1.9)	(0.6)	1.9
		593.2	625.2	(3.9)	(0.5)

# notes to the annual financial statements *... continued*

for the year ended 31 March 2006

		Group		Company	
		2006	2005	2006	2005
		Rm	Rm	Rm	Rm
27	<b>Notes to the cash flow statements</b> <i>continued</i>				
27.2	<b>Taxation paid</b>				
	Amount owing at the beginning of the year	(125.6)	(82.4)		
	Amount charged to the income statement	(237.6)	(182.4)		
	Adjustment for deferred taxation	(41.0)	(68.5)		
	Amount owing at the end of the year	159.8	125.6		
		(244.4)	(207.7)		
27.3	<b>Cash and cash equivalents</b>				
	Cash deposits and cash on hand	28.1	55.3		
	Overdrafts and short-term interest-bearing borrowings	(132.8)	(172.0)		
	Cash and cash equivalents	(104.7)	(116.7)		

## 28 Financial risk management

Executive management meets regularly to assess the group's currency, credit and interest rate exposure and to decide on strategies for managing the risk. The manner in which the risks are to be managed on a daily basis and limits imposed on management in so doing are set out in a treasury policy which is reassessed and updated at these meetings.

### 28.1 Credit risk management

Financial assets, which potentially subject the group to a concentration of credit risk, consist principally of cash at bank, investments and trade receivables. Cash at bank and short-term deposits are placed with high quality financial institutions and South African investments are limited to a maximum of 5% in any one publicly traded security. Trade receivables comprise a large, widespread customer base which is subject to continual and ongoing credit evaluations to determine the level of impairment. The granting of credit is controlled by sophisticated and well-developed application and behavioural scoring models which are continually refined and updated. There are no significant concentrations of credit risk which have not been provided for.

### 28.2 Interest rate risk management

Interest rate risk on interest-bearing instruments are managed by an independent asset management company in terms of a regularly updated mandate. As part of the process of managing the fixed and floating rate interest-bearing debt and cash and cash equivalents, the interest rate characteristics of new and the refinancing of existing loans are positioned according to the expected movements in interest rates.

# notes to the annual financial statements *... continued*

for the year ended 31 March 2006

	Term of investment	Average closing effective interest rate %	Floating or fixed	Carrying value Rm
28 <b>Financial risk management</b> <i>continued</i>				
28.2 <b>Interest rate risk management</b> <i>continued</i>				
<b>2006</b>				
<b>Assets</b>				
Gross instalment sale and loan receivables	<b>Up to 2 years</b>	<b>28.3%</b>	<b>Fixed</b>	<b>2 921.4</b>
<b>Liabilities</b>				
Finance leases	<b>3 years</b>	<b>7.0%</b>	<b>Floating</b>	<b>1.8</b>
Overdrafts and short-term borrowings	<b>Varies (refer note 15)</b>	<b>7.2%</b>	<b>Floating</b>	<b>132.8</b>
<b>2005</b>				
<b>Assets</b>				
Gross instalment sale and loan receivables	Up to 2 years	27.0%	Fixed	2 677.1
<b>Liabilities</b>				
Finance leases	3 years	8.0%	Floating	8.9
Overdrafts and short-term borrowings	Varies (refer note 15)	8.2%	Floating	172.0

## 28.3 Foreign exchange risk management

During the year, 13.7% (2005: 8.0%) of the purchases were in foreign denominated currencies. Forward exchange contracts are entered into to manage foreign exchange exposure. Below is a summary of the amounts payable under forward contracts.

	Term	Rate	Foreign currency FCm	Rand equivalent Rm	Fair value (gain)/loss Rm
<b>2006</b>					
US dollar	<b>Less than 9 months</b>	<b>Rates vary from R6.08 to R6.48</b>	<b>10.3</b>	<b>64.1</b>	<b>2.0</b>
<b>2005</b>					
US dollar	Less than 4 months	Rates vary from R6.13 to R6.18	1.3	8.2	0.1

Apart from the Linked Policy Investment, there was no uncovered exposure to foreign denominated currencies at year-end. The underlying value of the linked policy is determined in US dollar and this foreign currency exposure is uncovered. Refer note 28.6.

# notes to the annual financial statements *... continued*

for the year ended 31 March 2006

## 28 Financial risk management *continued*

### 28.3 Foreign exchange risk management *continued*

#### Net investment in foreign entities

The currency exposure is limited to the net investment in Botswana of R80.4 million (2005: R94.2 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.

### 28.4 Liquidity risk

	2006 Rm	2005 Rm
Total banking facilities	900.0	900.0
Less: drawn portion of facility	(132.8)	(172.0)
Plus: cash on hand	28.1	55.3
Available cash resources and facilities	795.3	783.3

Prudent liquidity management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Group treasury aims to maintain flexibility in funding by keeping committed credit lines available.

### 28.5 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 3 months subsequent to the sale.

The risk under any one 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 an insurance contract, this risk is random and therefore unpredictable.

# notes to the annual financial statements *... continued*

for the year ended 31 March 2006

## 28 Financial risk management *continued*

### 28.5 Insurance risk *continued*

The principle risk that the group faces is that the actual claims exceed the amount of the insurance 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 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 re-insurance arrangement has been entered into by Monarch to facilitate the transfer of 40% of the risk under these policies to an external re-insurer. Catastrophe cover has been placed with third-party insurers and re-insurers 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 risks, 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 significant insurance business other than with the group's customers.

	Group		Company	
	2006 Rm	2005 Rm	2006 Rm	2005 Rm
<b>Movement in provisions:</b>				
(i) Unearned premium reserve				
Opening balance	<b>154.4</b>	140.4		
Movement during year	<b>30.4</b>	14.0		
Closing balance	<b>184.8</b>	154.4		
(ii) Insurance provisions				
Opening balance	<b>19.6</b>	18.1		
Movement during year	<b>3.6</b>	1.5		
Closing balance	<b>23.2</b>	19.6		
Insurance provisions include outstanding claims and IBNR reserve.				

# notes to the annual financial statements *... continued*

for the year ended 31 March 2006

	Average closing rate of interest %	0-12 months	2-5 years	>5 years	Total
28 <b>Financial risk management</b> <i>continued</i>					
28.6 <b>Maturity profile of financial instruments</b>					
The maturity profiles of financial instruments at 31 March 2006 are as follows:					
<b>Assets</b>					
Available-for-sale insurance investments		–	318.6	159.4	478.0
Held-to-maturity insurance investments	7.1%	111.9	–	–	111.9
Trade and other receivables **	28.3%	1 896.5	–	–	1 896.5
Cash on hand and deposits	6.2%	28.1	–	–	28.1
<b>Liabilities</b>					
Interest-bearing borrowings	7.0%	(0.8)	(1.0)	–	(1.8)
Bank overdrafts and short-term borrowings	7.2%	(132.8)	–	–	(132.8)
Trade and other payables		(283.5)	–	–	(283.5)
		1 619.4	317.6	159.4	2 096.4

\*\* Amounts due from instalment sale receivables after 1 year are reflected as current, as they form part of the normal operating cycle. The credit terms of instalment sale receivables range from 6 – 24 months.

On 31 March 2006 the carrying amounts of other receivables, bank balances and cash on hand, trade and other payables and overdraft and short-term borrowings approximate their fair values due to the short-term maturity of the assets and liabilities.

Included in “Cash on hand and deposits” are bank balances held in foreign currency (Pula) amounting to R18.2 million (2005: R47.7 million).

Included in “Available-for-sale investments” is a linked investment policy with Sanlam Life Insurance Limited made by Monarch Insurance Company Limited, the group’s insurance subsidiary. The underlying value of the policy is determined in US dollars with reference to the original investment and a growth in a basket of international indices. The underlying indices are 65% foreign equity and 35% government bonds and the policy carries both a R68 million and US dollars 10.4 million capital guarantee effective if the investment is held to 6 November 2007.

# notes to the annual financial statements *... continued*

for the year ended 31 March 2006

		Group		Company	
		2006 Rm	2005 Rm	2006 Rm	2005 Rm
29	<b>Related party information</b> The group, in the ordinary course of business, enters into transactions with related parties. These transactions occur on terms no more favourable than those entered into with third parties in arm's length transactions.				
29.1	<b>Dealings with executives</b> Remuneration of executives	<b>12.2</b>	10.3		
	Salary	<b>6.2</b>	5.3		
	Bonus	<b>4.3</b>	3.5		
	Contributions to pension fund	<b>1.0</b>	0.9		
	Contributions to medical aid	<b>0.3</b>	0.2		
	Other benefits	<b>0.4</b>	0.4		
	Key executives comprise the directors of Lewis Stores (Pty) Ltd, the main operating subsidiary.				
29.2	<b>Amounts attributable to transactions with related entities</b> <b>Income</b> Re-insurance commission received from: common-controlled entity (Commission arising from the re-insurance business written)	-	41.1		
	IPO fee recovery	-	13.7		
	<b>Expenses</b> Interest paid to: common-controlled entity	-	32.8		
30	<b>Contingencies</b> 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.	<b>7.5</b>	5.1		
31	<b>Capital Commitments</b> There were no material capital commitments contracted for or authorised and contracted at the end of the year under review (2005 – Rnil).				

# notes to the annual financial statements *... continued*

for the year ended 31 March 2006

		2006			2005		
		Merchandise	Insurance	Group	Merchandise	Insurance	Group
		Rm	Rm	Rm	Rm	Rm	Rm
32	<b>Segmental reporting</b>						
32.1	<b>By business unit</b>						
	Revenue	2 474.0	400.5	2 874.5	2 153.6	357.6	2 511.2
	Operating profit <sup>1</sup>	564.9	163.7	728.6	449.7	143.8	593.5
	Operating assets <sup>2</sup>	2 288.3	602.0	2 890.3	2 116.9	510.1	2 627.0
	Operating liabilities	191.4	92.1	283.5	146.2	79.0	225.2
	Capital expenditure	39.8	–	39.8	37.4	–	37.4
	Depreciation	35.0	–	35.0	36.9	–	36.9
		2006			2005		
		South Africa	Other	Group	South Africa	Other	Group
		Rm	Rm	Rm	Rm	Rm	Rm
32.2	<b>Geographical</b>						
	Revenue	2 575.0	299.5	2 874.5	2 229.1	282.1	2 511.2
	Operating assets <sup>2</sup>	2 656.3	234.0	2 890.3	2 363.4	263.6	2 627.0
	Capital expenditure	36.9	2.9	39.8	35.0	2.4	37.4

<sup>1</sup> Operating profit excludes share-based payments of R58.4 million (2005: R10.8 million) relating to the share awards and options granted at date of listing.

<sup>2</sup> Operating assets does not include deferred tax asset of R89.7 million (2005: R48.7 million).

### 32.3 Inter-segment transfers

Segment revenues, expenses and results include transfers between business segments and between geographical segments. Such transfers are accounted for at arm's length prices.

# transition to international financial reporting standards

## ANNEXURE A

The Lewis Group adopted International Financial Reporting Standards ("IFRS") in the current financial year. The date of transition to IFRS is 1 April 2004. The opening balance sheet as at 1 April 2004 and the comparative information for the 2005 financial year has been restated to comply with IFRS. Lewis has utilised certain transitional arrangements in IFRS 1 ("First-time adoption of International Financial Reporting Standards"). The following exemptions under IFRS 1 and adoption of IFRS standards applicable to the group have been made in order to restate the comparative information:

### 1. Exemptions under IFRS 1:

#### A. Fair value as deemed cost

Lewis elected to apply the fair value of land and buildings as deemed cost. Accordingly, depreciation previously provided has been reversed. Deferred taxation has been provided on the revalued amount at the income tax rate.

#### B. Retirement benefits

Unrecognised actuarial gains and losses at the date of transition has been recognised and charged against retained income.

#### C. Cumulative translation differences

Foreign currency adjustments arising on the translation of foreign operations will continue to be recognised directly in equity. The balance on the Foreign Currency Translation Reserve at the date of transition was reset to zero.

#### D. Designation of financial instruments

Gilts held by Monarch Insurance Company have been designated as available-for-sale (previously recognised as fair value through profit and loss).

### 2. Adoption of IFRS standards

#### A. IFRS 2 : Share-based payments

Share-based payments are recognised as an expense in the income statement over the vesting period with a corresponding credit to equity (refer note 18.2).

#### B. IAS 17: Property leases

Operating leases with fixed escalations have been recognised as an expense on a straight-line basis over the lease term and not on the basis of the cash outflows as in previous years (refer note 1.6) in accordance with SAICA Circular 7/2005.

# transition to international financial reporting standards

## ANNEXURE A

### C. **IAS16: Property, plant and equipment**

Depreciation will be provided on buildings at deemed cost (refer 1A above). The residual value will be re-assessed at each balance sheet date (refer note 1.5).

### D. **IAS2: Inventory valuation**

Due to the reclassification of settlement discounts to cost of sales (refer 3 below), an appropriate adjustment to the inventory valuation was required.

### 3. **Reclassifications in the income statement**

The following reclassifications were made:

1. Insurance premiums paid to re-insurers are now deducted from insurance premiums written. This was previously included in cost of sales. In addition, reinsurance commissions received have been included in revenue.
2. Settlement discounts have been reclassified to cost of sales.
3. Additional expense categories included in other operating costs have been separately disclosed, namely administration and IT, marketing and transport and travel.

### 4. **Cash flow statement**

There is no change in the cash flows for 2005.

### 5. **Basis of transition to IFRS**

The following exemptions within IFRS 1 were not applied:

- exemption from restatement of comparatives for IAS 32 and IAS 39;
- insurance contracts;
- compound financial instruments;
- assets and liabilities of subsidiaries, associates and joint ventures;
- decommissioning liabilities included in the cost of property, plant and equipment; and
- leasing arrangements.

In terms of IFRS1, the retrospective application of the following items were not allowed:

- derecognition of financial assets and liabilities;
- hedge accounting;
- estimates; and
- assets held for sale.

# transition to international financial reporting standards

ANNEXURE A

## Restatement of Income Statement for the year ending 31 March 2005

	Reported under SA GAAP	Adjustments to comply with IFRS*									Reported under IFRS
		1A	1B	1C	1D	2A	2B	2C	2D	3	
<b>Revenue</b>	2 511.5									(0.3)	2 511.2
<b>Cost of merchandise sales</b>	(1 050.9)								(0.5)	166.4	(885.0)
<b>Operating costs</b>	(870.9)										(1 043.5)
Employment costs	(409.4)		3.4								(406.0)
Share-based payments	–					(10.8)					(10.8)
Administration and IT	–								(134.5)		(134.5)
Bad debts and impairment provision	(101.6)										(101.6)
Marketing	–									(79.6)	(79.6)
Occupancy costs	(89.2)						1.3				(87.9)
Transport and travel	–									(85.6)	(85.6)
Depreciation	(37.3)							0.4			(36.9)
Other operating costs	(233.4)							(0.8)		133.6	(100.6)
<b>Operating profit</b>	589.7										582.7
Investment income	45.9				(8.3)						37.6
<b>Profit before finance costs</b>	635.6										620.3
Net finance costs	(42.7)										(42.7)
<b>Profit before taxation</b>	592.9										577.6
Taxation	(184.0)		(1.1)		2.7		(0.5)	0.3	0.2		(182.4)
<b>Net profit attributable to ordinary shareholders</b>	408.9										395.2

\* Adjustments 1A – 3 refer to the IFRS exemptions and adoptions detailed on pages 94 and 95.

# transition to international financial reporting standards

ANNEXURE A

## Restatement of Balance Sheet as at 31 March 2005

	Reported under SA GAAP	Adjustments to comply with IFRS*								Reported under IFRS
		1A	1B	1C	1D	2A	2B	2C	2D	
<b>Assets</b>										
<b>Non-current assets</b>										
Property, plant and equipment	112.2	47.4						(0.1)		159.5
Investments – insurance business**	171.6									171.6
Deferred taxation	46.8	(12.7)	10.6				2.7		1.3	48.7
	330.6									379.8
<b>Current assets</b>										
Investments – insurance business**	334.2									334.2
Inventories	160.1								(4.3)	155.8
Trade and other receivables	1 750.6									1 750.6
Cash on hand and deposits	55.3									55.3
	2 300.2									2 295.9
<b>Total assets</b>	2 630.8									2 675.7
<b>Equity and liabilities</b>										
<b>Capital and reserves</b>										
Share capital and premium	676.9									676.9
Other reserves	54.7	(27.7)		2.2	12.3	10.8				52.3
Retained earnings	1 327.8	62.4	(25.2)	(2.2)	(12.3)	(10.8)	(6.2)	(0.1)	(3.0)	1 330.4
	2 059.4									2 059.6
<b>Non-current liabilities</b>										
Interest-bearing borrowings	1.7									1.7
Deferred taxation	12.0									12.0
Retirement benefits	36.6		35.8							72.4
	50.3									86.1
<b>Current liabilities</b>										
Trade and other payables	216.3						8.9			225.2
Taxation	125.6									125.6
Current-portion of interest-bearing borrowings	7.2									7.2
Overdrafts and short-term interest-bearing borrowings	172.0									172.0
	521.1									530.0
<b>Total equity and liabilities</b>	2 630.8									2 675.7

\* Adjustments 1A – 2D refer to the IFRS exemptions and adoptions detailed on pages 94 and 95.

\*\* Gilts reclassified as non-current asset in terms of IFRS.

# transition to international financial reporting standards

ANNEXURE A

## Restatement of Balance Sheet as at 1 April 2004

	Reported under SA GAAP	Adjustments to comply with IFRS*								Reported under IFRS
		1A	1B	1C	1D	2A	2B	2C	2D	
<b>Assets</b>										
<b>Non-current assets</b>										
Property, plant and equipment	115.4	47.6								163.0
Investments – insurance business**	354.2									354.2
	469.6									517.2
<b>Current assets</b>										
Investments – insurance business**	88.7									88.7
Inventories	155.3								(3.8)	151.5
Trade and other receivables	1 751.7									1 751.7
Cash on hand and deposits	358.8									358.8
	2 354.5									2 350.7
<b>Total assets</b>	2 824.1									2 867.9
<b>Equity and liabilities</b>										
<b>Capital and reserves</b>										
Share capital and premium	300.9									300.9
Other reserves	32.1	(28.5)		2.2	6.6					12.4
Retained earnings	981.2	63.2	(27.5)	(2.2)	(6.6)		(7.0)		(2.7)	998.4
	1 314.2									1 311.7
<b>Non-current liabilities</b>										
Interest-bearing borrowings	683.8									683.8
Deferred taxation	28.1	12.9	(11.7)				(3.0)		(1.1)	25.2
Retirement benefits	36.0		39.2							75.2
	747.9									784.2
<b>Current liabilities</b>										
Trade and other payables	207.4						10.0			217.4
Taxation	82.4									82.4
Current-portion of interest-bearing borrowings	472.2									472.2
	762.0									772.0
<b>Total equity and liabilities</b>	2 824.1									2 867.9

\* Adjustments 1A – 2D refer to the IFRS exemptions and adoptions detailed on pages 94 and 95.

\*\* Gilts reclassified as non-current asset in terms of IFRS.

# interest in subsidiary companies ANNEXURE B

for the year ended 31 March 2006

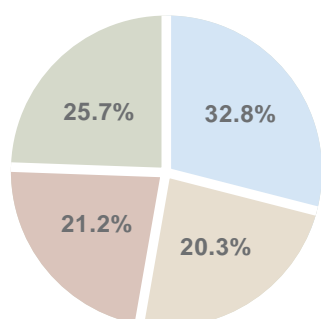
	Nature of business	2006		2005	
		Carrying value of subsidiaries Rm	% Holding	Carrying value of subsidiaries Rm	% Holding
<b>Directly held</b>					
Lewis Stores (Pty) Ltd	F	2 800.0	100%	2 800.0	100%
<b>Indirectly held</b>					
<b>Incorporated in South Africa</b>					
Barons Furnishers (Pty) Ltd	D				100%
Dan Hands (Pty) Ltd	D				100%
Kingtimm (Pty) Ltd	L		100%		100%
Lewis Stores (Bophuthatswana) (Pty) Ltd	D				100%
Lewis Stores (Butterworth) (Pty) Ltd	D				100%
Lewis Stores (Mount Frere) (Pty) Ltd	D				100%
Lewis Stores (Transkei) (Pty) Ltd	D				100%
Lewis Stores (Umzimkulu) (Pty) Ltd	D				100%
Lewis Stores (Venda) (Pty) Ltd	D				100%
Lifestyle Living (Pty) Ltd	F		100%		100%
M. Lewis Estates (Kenilworth) (Pty) Ltd	R		100%		100%
M. Lewis Estates (Queenstown) (Pty) Ltd	D				100%
M. Lewis Estates (Randfontein) (Pty) Ltd	D				100%
Monarch Insurance Co. Ltd	I		100%		100%
<b>Incorporated in Botswana</b>					
Lewis Stores (Botswana) (Pty) Ltd	F		100%		100%
Lewis Management Services (Botswana) (Pty) Ltd	M		100%		100%
<b>Incorporated in Swaziland</b>					
Lewis Stores (Swaziland) (Pty) Ltd	F		100%		100%
<b>Incorporated in Namibia</b>					
Lewis Stores (Namibia) (Pty) Ltd	F		100%		100%
Lewis Management Services Namibia (Pty) Ltd	M		100%		100%
<b>Incorporated in Lesotho</b>					
Lewis Stores (Lesotho) (Pty) Ltd	F		100%		100%
<b>Cost of subsidiaries</b>		<b>2 800.0</b>		2 800.0	
<b>Amounts due by subsidiaries</b>					
Lewis Stores (Pty) Ltd		<b>1.4</b>		2.1	
<b>Interest in subsidiaries</b>		<b>2 801.4</b>		2 802.1	

F Furniture dealer  
 I Insurance company  
 M Management services company  
 R Dormant; in process of being deregistered  
 L Company holding property leases  
 D Company deregistered in 2006

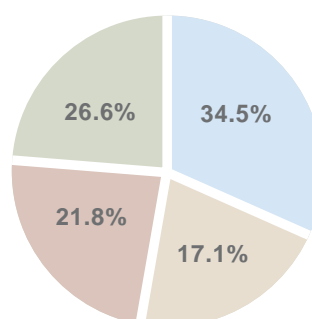
# statement of value added

	Group			
	2006 Rm	%	2005 Rm	%
Revenue	2 874.5		2 511.2	
Paid to suppliers for goods and services	1 533.8		1 333.7	
<b>Value added by operating activities</b>	<b>1 340.7</b>		<b>1 177.5</b>	
<b>Distributed as follows:</b>				
<b>Remuneration to employees</b>	<b>440.2</b>	32.8	406.0	34.5
<b>Returns to providers of capital:</b>	<b>271.7</b>	20.3	201.8	17.1
To provide lenders with a return on their capital utilised	18.7		54.8	
To provide lessors with a return for the use of their premises	96.1		86.0	
To provide shareholders with a return on their equity	156.9		61.0	
<b>Taxes paid to governments</b>	<b>284.6</b>	21.2	256.3	21.8
Income taxation	278.6		250.9	
Regional Service Council levies	3.8		3.5	
Municipal rates	2.2		1.9	
<b>Reinvested in the Group</b>	<b>344.2</b>	25.7	313.4	26.6
Depreciation and amortisation	35.0		36.9	
Deferred taxation	(41.0)		(68.5)	
Net earnings retained	350.2		345.0	
<b>Total wealth distributed</b>	<b>1 340.7</b>	100.0	<b>1 177.5</b>	100.0

distribution of value added 2006



distribution of value added 2005



● remuneration paid to employees ● returns to providers of capital ● taxes paid to government ● reinvested in group

# definitions

The definitions below should be read in conjunction with the accounting policies set out in the financial statements on pages 66 to 71.

## **Normalised Profit**

Normalised profit is the profit attributable to shareholders determined in accordance with International Financial Reporting Standards, but excludes the effects of share-based payments (IFRS 2) in respect of share awards and options granted at the date of listing (refer pages 4 and 5). For 2004 and prior years, the profit is determined in accordance with South African Generally Accepted Accounting Practice.

## **Return on average shareholders equity**

Normalised profit attributable to ordinary shareholders as a percentage of average shareholders' equity.

## **After-tax return on average capital employed**

After-tax return for capital is the normalised profit attributable to ordinary shareholders plus finance costs paid to providers of capital less the attributable tax on finance costs.

Capital employed is shareholders' interest and interest-bearing debt.

The after-tax return on average capital employed is the after-tax return for capital as a percentage of the average capital employed for the year.

## **After-tax return on average assets managed**

After-tax return is the normalised profit before interest and taxation less taxation and the attributable tax on finance costs.

The after-tax return on average assets managed is the after-tax return as a percentage of the average total assets.

## **Gross margin**

Gross profit as a percentage of merchandise sales.

## **Normalised operating margin**

Normalised operating profit before exceptional items as a percentage of revenue.

## **Inventory turn**

Cost of merchandise sales divided by the closing inventory.

## **Average age of the debtors book**

Trade receivables divided by the current year's credit revenue.

## **Normalised financing cover**

Normalised profit before finance costs and taxation divided by the finance costs.

## **Gearing ratio**

Interest-bearing debt, reduced by cash and cash equivalents, divided by shareholders' equity.

## **Current ratio**

Current assets divided by current liabilities.

## **Cash conversion ratio**

Cash generated from operations divided by the normalised operating profit

## **Normalised earnings per share**

Normalised profit attributable to ordinary shareholders divided by the weighted average number of shares in issue.

## **Normalised headline earnings per share**

Normalised headline earnings divided by the weighted average number of shares in issue.

## **Cash flow per share**

Cash generated from operations divided by the weighted average shares in issue.

## **Net asset value per share**

The net asset value divided by the number of shares in issue, after deducting treasury shares, at the end of the year.

## **Normalised price-earnings ratio**

The closing price on the JSE Ltd divided by the normalised earnings per share.

## **Dividends per share for the financial year**

The dividends declared in respect of the financial year expressed as cents per share. Note that this will not correlate to the dividends reflected in the financial accounts since dividends are only recorded on declaration.

# five-year review

	2006 Rm (Normalised)	2005 Rm	2004 Rm	2003 Rm (SA GAAP)	2002 Rm
<b>Group Income Statements</b>					
Revenue	<b>2 874.5</b>	2 511.2	2 274.7	2 037.9	1 995.8
Cost of sales	<b>(1 020.6)</b>	(885.0)	(919.6)	(813.5)	(779.1)
Operating costs	<b>(1 125.3)</b>	(1 032.7)	(849.5)	(795.1)	(855.6)
Operating profit before exceptional item	<b>728.6</b>	593.5	505.6	429.3	361.1
Exceptional item	–	–	–	47.9	–
Operating profit	<b>728.6</b>	593.5	505.6	477.2	361.1
Investment income	<b>28.9</b>	37.6	34.9	39.7	49.6
Profit before interest and taxes (EBITA)	<b>757.5</b>	631.1	540.5	516.9	410.7
Finance costs	<b>(12.8)</b>	(42.7)	(141.7)	(156.6)	(147.2)
Net profit before tax	<b>744.7</b>	588.4	398.8	360.3	263.5
Taxation	<b>(237.6)</b>	(182.4)	(111.5)	(108.2)	(71.2)
<b>Normalised attributable profit</b>	<b>507.1</b>	406.0	287.3	252.1	192.3
<b>Normalised headline earnings</b>	<b>510.4</b>	400.9	287.6	248.1	196.7
<b>Group Balance Sheets</b>					
<b>Assets</b>					
Non-current	<b>730.9</b>	608.8	257.4	289.9	279.4
Property, plant and equipment	<b>163.2</b>	159.5	115.4	117.5	105.7
Investments – insurance business	<b>478.0</b>	400.6	146.2	172.4	173.7
Deferred tax asset	<b>89.7</b>	48.7	–	–	–
Other	–	–	(4.2)	–	–
Current	<b>2 249.1</b>	2 066.9	2 562.5	2 256.9	2 286.9
Investments – insurance business	<b>111.9</b>	105.2	296.7	263.6	256.3
Inventories	<b>212.6</b>	155.8	155.3	120.2	132.8
Trade and other receivables	<b>1 896.5</b>	1 750.6	1 751.7	1 852.6	1 846.2
Cash and cash equivalents	<b>28.1</b>	55.3	358.8	20.5	45.6
Taxation	–	–	–	–	6.0
<b>Total assets</b>	<b>2 980.0</b>	2 675.7	2 819.9	2 546.8	2 566.3
<b>Equity and Liabilities</b>					
Capital and reserves	<b>2 305.4</b>	2 059.6	1 310.0	1 153.5	921.4
Non-current liabilities	<b>97.7</b>	86.1	747.9	1 162.2	1 255.6
Interest-bearing borrowings	<b>1.0</b>	1.7	683.8	1 016.4	1 112.4
Retirement benefits	<b>75.8</b>	72.4	36.0	33.7	26.1
Deferred taxation	<b>20.9</b>	12.0	28.1	112.1	117.1
Current liabilities	<b>576.9</b>	530.0	762.0	231.1	389.3
Trade and other payables	<b>283.5</b>	225.2	207.4	161.7	240.1
Current portion of interest-bearing borrowings	<b>0.8</b>	7.2	472.2	9.7	6.9
Short-term borrowings	<b>132.8</b>	172.0	–	36.7	142.3
Taxation	<b>159.8</b>	125.6	82.4	23.0	–
<b>Total equity and liabilities</b>	<b>2 980.0</b>	2 675.7	2 819.9	2 546.8	2 566.3

# five-year review *... continued*

	2006 Rm (Normalised)	2005 Rm	2004 Rm	2003 Rm (SA GAAP)	2002 Rm
<b>Group Cash Flow Statements</b>					
<b>Cash generated from operations</b>	<b>593.2</b>	625.2	508.9	428.7	257.4
Dividends and interest received	<b>41.3</b>	46.9	49.5	48.1	52.8
Interest paid	<b>(18.7)</b>	(319.9)	(18.9)	(267.3)	(26.5)
Tax paid	<b>(244.4)</b>	(207.7)	(99.2)	(90.5)	(68.9)
<b>Net cash retained from operations</b>	<b>371.4</b>	144.5	440.3	119.0	214.8
<b>Cash utilised in investing activities</b>	<b>(45.5)</b>	(53.0)	(59.0)	(44.8)	(48.6)
<b>Net effect of financing activities</b>	<b>(313.9)</b>	(567.0)	(6.3)	6.3	(5.0)
<b>Net cash increase/(decrease) in cash and cash equivalents</b>	<b>12.0</b>	(475.5)	375.0	80.5	161.2
	<b>2006</b>	2005	2004	2003	2002
<b>Ratios and Statistics</b>					
<b>Returns</b>					
Return on average shareholders' funds	<b>23.2%</b>	22.1%	24.8%	24.3%	23.7%
After-tax return on average capital employed	<b>22.1%</b>	18.5%	17.0%	16.4%	14.2%
After-tax return on average assets managed	<b>18.2%</b>	15.9%	14.4%	14.1%	12.2%
<b>Margins</b>					
Gross margin	<b>34.9%</b>	34.5%	33.6%	32.3%	34.0%
Normalised operating margin	<b>25.3%</b>	23.6%	22.2%	21.1%	18.1%
<b>Productivity</b>					
Number of stores	<b>490</b>	475	465	444	450
Revenue per store (R000's)	<b>5 866</b>	5 287	4 892	4 590	4 435
Normalised operating profit per store (R000's)	<b>1 487</b>	1 249	1 087	967	802
Average number of employees (permanent employees only)	<b>5 879</b>	5 713	5 571	5 513	5 561
Revenue per employee (R000's)	<b>489</b>	440	408	370	359
Normalised operating profit per employee (R000's)	<b>124</b>	104	91	78	65
Trading space (sqm)	<b>210 201</b>	207 595	205 793	197 580	200 250
Revenue per sqm (R)	<b>13 675</b>	12 097	11 053	10 314	9 967
Normalised operating profit per sqm (R)	<b>3 466</b>	2 859	2 457	2 173	1 803
Inventory turn (times)	<b>4.8</b>	5.7	5.1	5.8	5.0
<b>Credit ratios</b>					
Cash and short-term credit sales %	<b>29.9%</b>	30.1%	23.0%	18.2%	16.7%
Bad debts and impairment charge as a % of gross trade receivables	<b>4.0%</b>	3.8%	4.4%	6.4%	7.9%
Debtors impairment provision as a % of gross trade receivables	<b>12.6%</b>	14.4%	15.6%	10.2%	10.4%
Total debtors provisions as a % of gross trade receivables	<b>36.3%</b>	35.6%	35.0%	28.2%	28.3%
Decline rate %	<b>22.4%</b>	20.5%	22.3%	23.7%	21.3%
Average age of book (months)	<b>14.3</b>	14.8	15.4	16.3	16.4
Arrear % (full contractual)	<b>22.0%</b>	25.7%	27.3%	27.9%	26.9%

# five-year review *... continued*

	2006	2005	2004	2003	2002
<b>Solvency and liquidity</b>					
Normalised financing cover (times)	<b>59.2</b>	14.8	3.8	3.3	2.8
Dividend cover	<b>2.25</b>	3.00	n/a	n/a	n/a
Gearing ratio (%)	<b>4.6%</b>	6.1%	60.9%	90.4%	132.0%
Current ratio (times)	<b>3.9</b>	3.9	3.4	9.8	5.9
Cash conversion ratio (%)	<b>81.4%</b>	105.3%	100.7%	89.8%	71.3%
<b>Share performance</b>					
Normalised earnings per share (cents)	<b>521.2</b>	406.0	287.3	252.1	192.3
Normalised headline earnings per share (cents)	<b>524.6</b>	400.9	287.6	248.1	196.7
Cash flow per share (cents)	<b>609.7</b>	625.2	508.9	428.7	257.4
Net book asset per share (cents)	<b>2 425.0</b>	2 059.6	1 310.0	1 153.5	921.4
Share price:					
Closing price	<b>61.60</b>	33.51	n/a	n/a	n/a
High	<b>62.97</b>	41.50	n/a	n/a	n/a
Low	<b>32.75</b>	28.20	n/a	n/a	n/a
Normalised price-earnings ratio	<b>11.8</b>	8.3	n/a	n/a	n/a
Dividends per share for the financial year (cents)	<b>225</b>	135	n/a	n/a	n/a
Number of shares in issue (million)	<b>100</b>	100	n/a	n/a	n/a
Volume of shares traded (million)	<b>156.1</b>	61.8	n/a	n/a	n/a
Value of shares traded (million)	<b>6 386.8</b>	2 139.5	n/a	n/a	n/a
Market capitalisation (million)	<b>6 160</b>	3 351	n/a	n/a	n/a
Number of shareholders	<b>2 331</b>	2 862	n/a	n/a	n/a

## Explanatory notes:

1. All ratios are based on figures at the end of the year unless otherwise disclosed.
2. All amounts for the 2002 to 2004 financial years are in accordance with South African Generally Accepted Accounting Practice ("SA GAAP"). For 2005 and 2006 financial years, the results and financial position are determined in accordance with International Financial Reporting Standards, but exclude share-based payments (IFRS 2) arising from share awards and options granted at date of listing.
3. Where a ratio is referred to as normalised, the earnings in that ratio will exclude the share-based payment of R58.4 million (2005: R10.8 million).
4. No restatement of the prior year figures for the impact of AC 133 which was applied for the first time in the 2004 financial year was made. It has resulted in significant adjustments to the debtors impairment provision, carrying value of investments and opening shareholders' equity. All ratios using these items have, consequently, not been restated for the prior years.
5. The return on equity for the 2005 financial year has been restated to exclude the effect of the restructuring prior to the listing.
6. The solvency/liquidity ratios for 2004 and prior years have been affected by the group structure prior to its listing.