

notes to the annual financial statements

for the year ended 31 March 2008

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.

The following new or revised IFRSs and interpretations have become applicable to the 2008 financial statements:

- IFRS 7 and IAS 1 (revised): Financial Instruments – Capital Disclosures
- IFRIC 8: Scope of IFRS 2
- IFRIC 9: Reassessment of embedded derivatives
- IFRIC 10: Interim Reporting and Impairment

The implementation of these interpretations and amendments to the standards did not have a significant impact on the group’s results and cash flows for the year ended 31 March 2008 and the financial position as at 31 March 2008. Disclosure in the notes to the financial statements have been amended in accordance with the requirements of IFRS 7 and the amendment to IAS 1.

The following standards and interpretations, which have been issued but which are not yet effective, have not been applied in these financial statements:

- IFRS 2: Share-based Payment – vesting conditions and cancellations
- IFRS 3: Business Combinations (revised)
- IFRS 8: Operating Segments
- IAS 1: Presentation of Financial Statements (revised)
- IAS 27: Consolidated and Separate Financial Statements (revised)
- IFRIC 11: Group and Treasury Shares
- IFRIC 13: Customer Loyalty Programmes
- IFRIC 14: The limit on a defined benefit asset and minimum funding requirements

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.

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

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If the cost of the acquisition is less than the fair value of the net assets acquired, the difference is recognised directly in the income statement.

During a business combination under common control, the excess of the purchase consideration over the net asset value of the acquiree is recognised in equity as a negative common control reserve. This accounting treatment is only applicable to the group financial statements.

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.

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. Exchange profits and losses arising from the translation of monetary assets and liabilities at balance sheet date or on subsequent settlement of these monetary items are recognised in the income statement in the period in which they arise.

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, a separate component of equity. On disposal of a foreign subsidiary, such translation differences are recognised in the income statement as a gain or loss on the sale.

1.4 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 cost which approximates fair value.

1.4.2 Derivative instruments

Derivative instruments are utilised to hedge exposure to foreign currency and interest rate fluctuations. Derivatives are recognised at fair value on initial recognition. 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 on initial recognition 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 principally for the purpose of selling in the short term. Assets in this category are classified as current assets where expected to be realised within twelve months of balance sheet date.
- (ii) Financial assets acquired with the intention of being held indefinitely are designated as available-for-sale or not classified in another category and are 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 where management has the positive intention and ability to hold to maturity. Held-to-maturity investments are carried at amortised cost using the effective interest rate method. If the group were to sell any of these assets, the whole category of such assets would be reclassified as available-for-sale.

Purchases and sales of financial assets are recognised on the trade date, being the date that the group commits to the transaction. The financial assets are initially recognised at their fair value with transaction costs being expensed in the income statement in respect of assets classified as fair value through profit and loss and for other categories, added to their carrying value. 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. 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 initially at fair value and subsequently measured at amortised cost using the effective interest rate, less a provision for doubtful debts. The provision for doubtful debts is the difference between the asset's carrying amount and the present value of

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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 note 1.4.2.

1.4.6 Set-off

Where there is currently 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 realise the asset or settle the liability, 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.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are capitalised when it is probable that future economic benefits will arise. 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.

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

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.

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 tax is not accounted for if, on initial recognition, it arises from an asset or liability in a business combination nor where the transaction neither affects accounting nor taxable profit or loss. Deferred taxation is calculated at current or substantially enacted rates of taxation at balance sheet date. A deferred tax asset is raised to the extent that it is probable that sufficient taxable profit will arise in the foreseeable future against which the asset can be realised.

1.10 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 Classification

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

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

1.11.2 Outstanding claims

Provision is made for the estimated final cost of all claims notified but not settled at the accounting date and claims arising from insurance contingencies that occurred before the close of the accounting period, but which had not been reported by that date.

1.11.3 Contingency reserve

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

1.11.4 Provision for unearned premiums

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

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1.11.5 Reinsurance

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

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

1.12 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 36 months but are classified as current as they form part of the normal operating cycle.

1.14 Treasury shares

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

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 for unless the group has a legal right to such surpluses.

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

1.15.2 Post-retirement healthcare costs

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

1.15.3 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.

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 fifth day after the month being reported on, unless such day falls on a Sunday, in which case it ends on the fourth day.

1.18 Revenue recognition

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

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Revenue from the sale of merchandise is recognised on the date of delivery. Insurance premiums are recognised on a straight-line basis over the period of the contract, after an appropriate allowance is made for commission and reinsurance cost. For contracts entered into prior to the implementation of the National Credit Act (“NCA”), finance charges are recognised on a sum-of-digits basis which closely approximates the effective yield basis. For contracts entered into subsequent to the implementation of the NCA, finance charges are recognised by reference to the daily principal outstanding and the effective interest rate implicit in the agreement. Revenue from maintenance contracts is recognised over a 24-month period to ensure a reasonable profit margin. Initiation fees and directly related costs are recognised over the period of the contract on an effective yield basis. Revenue from the provision of other services is recognised when the services are rendered.

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

2. 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

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 17.2.

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 12.

2.6 Useful lives and residual values of fixed assets

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

Group

	Land and buildings Rm	Leased Equipment Rm	Vehicles and fixtures Rm	Total Rm
3. Property, plant and equipment				
As at 31 March 2008				
Opening net carrying value	82.8	–	100.1	182.9
Additions	2.2	–	57.6	59.8
Disposals	–	–	(1.2)	(1.2)
Depreciation	(0.8)	–	(40.1)	(40.9)
Closing net carrying value	84.2	–	116.4	200.6
Cost	88.8	14.9	336.4	440.1
Accumulated depreciation	(4.6)	(14.9)	(220.0)	(239.5)
As at 31 March 2007				
Opening net carrying value	83.5	0.4	79.3	163.2
Additions	–	–	60.6	60.6
Disposals	–	–	(2.0)	(2.0)
Depreciation	(0.7)	(0.4)	(37.8)	(38.9)
Closing net carrying value	82.8	–	100.1	182.9
Cost	86.6	14.9	290.4	391.9
Accumulated depreciation	(3.8)	(14.9)	(190.3)	(209.0)
A register of the group's land and buildings is available for inspection at the company's registered office.				

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	Group	
	2008	2007
	Rm	Rm
4. Investments – insurance business		
Carrying value and market value		
<i>Listed investments</i>		
Listed shares – available-for-sale	192.5	204.7
Investment policy – available-for-sale	–	83.9
Fixed income securities – available-for-sale	312.9	256.4
<i>Unlisted Investments</i>		
Money market – at fair value	159.5	115.4
	664.9	660.4
<i>Analysed as follows</i>		
Long-term	505.4	461.1
Short-term	159.5	199.3
	664.9	660.4
Movement for the year		
Beginning of the year	660.4	589.9
Net additions to investments	65.3	13.4
Movement in fair value transferred to equity	(60.8)	57.1
End of the year	664.9	660.4
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 26. Regular purchases and sales of financial assets are accounted for on the trade date.		
5. Inventories		
Cost of merchandise	255.1	252.7
Less: provision for obsolescence	(24.7)	(22.4)
	230.4	230.3

		Group	
		2008	2007
		Rm	Rm
6. Trade and other receivables			
Instalment sale and loan receivables		3 539.8	3 317.0
Provision for unearned finance charges		(72.1)	(389.3)
Provision for unearned maintenance income		(191.6)	(183.4)
Provision for unearned initiation fees		(46.9)	–
Provision for unearned insurance premiums		(290.5)	(214.3)
Unearned insurance premiums		(479.1)	(346.7)
Less: reinsurer's share of unearned premiums		188.6	132.4
Net instalment sale and loan receivables		2 938.7	2 530.0
Provision for doubtful debts		(395.8)	(377.5)
		2 542.9	2 152.5
Other receivables and prepayments		72.7	35.2
		2 615.6	2 187.7
<p>Amounts due from instalment sale and loan receivables after one year are reflected as current, as they form part of the normal operating cycle. The credit terms of instalment sale and loan receivables range from 6 to 36 months (2007: 6 to 24 months).</p>			
7. Share capital and premium			
7.1 Share capital and premium			
Share capital		1.0	1.0
Share premium		2 749.0	2 799.0
Common control reserve		(2 123.1)	(2 123.1)
		626.9	676.9
Treasury shares:			
Lewis Stores (Pty) Ltd		(477.8)	(365.4)
Lewis Employee Share Incentive Scheme Trust		–	(0.1)
Total share capital and premium		149.1	311.4

The average market price paid for all the shares repurchased was R52.16, with the lowest price being R41.75 and the highest R65.90.

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

Previously, the excess of the purchase consideration over the net asset value of Lewis Stores was reflected as a reduction of share premium. Comparative figures now reflect the reclassification of the common control reserve as a separate line in equity.

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		Group	
		2008 000's	2007 000's
7. Share capital and premium (continued)			
7.2 Number of ordinary shares in issue			
Number of shares issued		99 158	100 000
Treasury shares held by:			
Lewis Stores (Pty) Ltd		(9 217)	(7 507)
Lewis Employee Share Incentive Scheme Trust		(655)	(1 401)
		89 286	91 092
		Rm	Rm
8. Other reserves			
<i>Comprising:</i>			
Fair value reserve		93.3	142.1
Foreign currency translation reserve		(15.3)	(21.2)
Share-based payment reserve		8.4	2.6
Other		0.8	0.8
		87.2	124.3
Statutory insurance contingency reserve		41.2	32.2
		128.4	156.5
Detailed movements in the other reserves are disclosed in the statement of changes in equity.			
9. Retained earnings			
<i>Comprising:</i>			
Company		50.3	3.4
Consolidated subsidiaries		2 402.2	2 055.9
		2 452.5	2 059.3
Distribution of all reserves by South African subsidiaries would give rise to STC of R233.1 million (2007: R226.1 million).			
Distribution by certain foreign subsidiaries will give rise to withholding taxes of R26.4 million (2007: R23.9 million).			
No provision for STC and withholding taxes are raised until dividends are declared.			

		Group	
		2008 Rm	2007 Rm
10. Interest-bearing borrowings			
	Capitalised finance leases secured by computer equipment with a net book value of nil (2007: Rnil million), bearing interest at rates linked to prime, repayable in the next year.	-	1.0
	Current portion of capitalised finance lease	-	(1.0)
		-	-
	Total interest-bearing borrowings		
	Long-term portion of interest-bearing borrowings	-	-
	Current portion of interest-bearing borrowings	-	1.0
		-	1.0
11. Deferred taxation			
	Balance at the beginning of the year	(77.5)	(68.8)
	<i>Movement for the year attributable to:</i>		
	Income statement credit	103.9	(13.2)
	Deferred tax on fair value adjustment in equity	(12.0)	4.5
	Balance at the end of the year	14.4	(77.5)
	<i>This balance comprises:</i>		
	Capital allowances	28.4	40.8
	Debtors allowances	19.5	(83.3)
	Income and expense recognition	2.2	1.9
	Other provisions	(35.7)	(36.9)
	Balance at the end of the year	14.4	(77.5)
	Disclosed as:		
	Deferred tax asset	-	(102.9)
	Deferred tax liability	14.4	25.4
		14.4	(77.5)

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		Group	
		2008 Rm	2007 Rm
12. Retirement benefits			
	Amounts recognised in the balance sheet		
	Defined benefit retirement plan liability	16.9	27.1
	Post-retirement healthcare benefits	40.8	40.5
		57.7	67.6
	Retirement plans		
	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.		
	The number of employees on these plans are as follows:		
	Lewis Group Pension Fund	311	350
	Lewis Stores Retirement Pension Fund	32	27
	SACCAWU Provident Fund	583	593
	Lewis Stores Provident Fund	2 888	2 863
	Lewis Stores Namibia Provident Fund	118	100
	Defined benefit plans		
	The defined benefit funds are final salary defined benefit plans. These schemes are valued by an independent actuary on an annual basis in terms of IAS 19 using the projected unit credit method. The latest valuation was carried out as at 1 January 2008.		
	Amounts recognised in the balance sheet		
	Present value of obligations	345.8	303.2
	Fair value of plan assets	(362.1)	(305.6)
		(16.3)	(2.4)
	Unrecognised actuarial gains	33.2	29.5
	Defined benefit retirement plan liability	16.9	27.1

	Group	
	2008 Rm	2007 Rm
12. Retirement benefits (continued)		
Amounts recognised in the income statement		
Current service cost	11.1	13.3
Interest cost	25.5	19.9
Expected return on plan assets	(30.6)	(22.5)
Net actuarial losses recognised in the year	1.6	–
Total included in staff costs	7.6	10.7
Movement in retirement benefit liability		
Present value at the beginning of the year	27.1	34.6
Income statement charge	7.6	10.7
Contributions paid during the year	(17.8)	(18.2)
Present value at the end of the year	16.9	27.1
Present value of defined benefit obligations		
Beginning of year	303.2	269.9
Current service cost	11.1	13.3
Interest cost	25.5	19.9
Employee contributions	1.8	1.9
Benefit payments	(18.1)	(24.6)
Actuarial loss	22.3	22.8
End of year	345.8	303.2
Fair value of defined benefit plan assets		
Beginning of year	305.6	252.2
Employee contributions	1.8	1.9
Employer contributions	17.8	18.2
Expected return	30.6	22.5
Benefit payments	(18.1)	(24.6)
Actuarial gain	24.4	35.4
End of year	362.1	305.6

notes to the annual financial statements

for the year ended 31 March 2008 *continued*

	Group	
	2008 Rm	2007 Rm
12. Retirement Benefits (continued)		
Principal actuarial assumptions used were as follows:		
Discount rate	9.50%	8.50%
Expected return on plan assets	10.00%	10.00%
Inflation rate	6.50%	5.25%
Future salary increases	7.75%	6.25%
Future pension increases	6.50%	5.25%
Assumptions regarding future mortality experience are based on advice, published statistics and experience. The average life expectancy in years of a pensioner retiring at age 65 on valuation date is as follows:		
Male	12.6 years	15.9 years
Female	14.0 years	19.8 years
Actual return on plan assets	18.2%	20.8%
The employer's future contribution is set on an annual basis in consultation with the fund's actuary.		
Defined contribution plans		
For defined contribution plans, the group pays contributions to the funds on a contractual basis. Once the contributions have been paid, the group has no further payment obligations.		
Defined contribution plan costs	17.5	16.3
Post-retirement healthcare benefits		
The group provides a subsidy of medical aid contributions to retired employees. Only those employees employed prior to 1 August 1997 qualify for this benefit. The liability was valued as at 31 March 2008 by a qualified actuary in accordance with the requirements of IAS 19. The group has a commitment to meet these unfunded benefits.		
Amounts recognised in the income statement		
Current service cost	0.9	0.8
Interest cost	2.9	2.8
Actuarial gain	(1.6)	(2.4)
Income statement charge	2.2	1.2
Movement in post-retirement healthcare liability		
Present value of liability at the beginning of the year	40.5	41.2
Charged to income statement	2.2	1.2
Employer benefit payments	(1.9)	(1.9)
Post-retirement healthcare benefits liability	40.8	40.5

	Group	
	2008 Rm	2007 Rm
12. Retirement benefits (continued)		
Present value of post-retirement healthcare obligations		
Beginning of year	40.5	41.2
Current service cost	0.9	0.8
Interest cost	2.9	2.8
Benefit payments	(1.9)	(1.9)
Actuarial gain	(1.6)	(2.4)
End of year	40.8	40.5
Principal actuarial assumptions used were as follows:		
Healthcare inflation rate	5.50%	4.75%
CPI inflation	5.50%	4.75%
Discount rate	8.75%	7.75%
Average retirement age (years)	63	63
Sensitivity	Increase	Decrease
The effects of a 1% movement in the assumed medical aid inflation rate were as follows:		
Effect on aggregate of the current service and interest cost	0.7	(0.6)
Effect on defined benefit obligation	5.6	(4.6)
Trends		
The trends of the present value of the obligation and experience adjustments are as follows:		
2008	40.8	0.2
2007	40.5	2.4
2006	41.2	4.9
2005	34.7	(2.7)
2004	30.8	2.0
2003	29.5	

notes to the annual financial statements

for the year ended 31 March 2008 *continued*

		Group	
		2008 Rm	2007 Rm
13.	Trade and other payables		
	Trade payables	59.6	91.6
	Accruals and other payables	107.3	94.0
	Due to reinsurers	102.7	76.1
	Insurance provisions	32.8	26.0
		302.4	287.7
14.	Overdrafts and short-term interest-bearing borrowings		
	These borrowings are unsecured. The average closing interest rate on these borrowings was 12.76% (2007: 9.25%)	703.4	429.3
		703.4	429.3
15.	Insurance premiums earned		
	Gross insurance premiums	615.3	495.4
	Reinsurance commission	203.4	157.9
	Reinsurance premiums	(254.5)	(188.6)
		564.2	464.7
16.	Cost of merchandise sales		
	Purchases	1 272.2	1 211.7
	Movement in inventory	(0.1)	(17.7)
	Cost of merchandise sales	1 272.1	1 194.0
	Merchandise gross profit	617.6	614.8
17.	Directors and employees		
17.1	Employment costs		
	Salaries, wages, commissions and bonuses	466.3	449.3
	Retirement benefit costs	27.3	28.2
	Share-based payments	6.7	4.0
	Other employment costs	3.9	4.1
		504.2	485.6
17.2	Share-based payments		
	As the fair value of the services received cannot be measured reliably, the services have been valued by reference to the fair value of shares and options granted. The fair value of such options and shares is measured at the grant date using the Black-Scholes model.		
	In terms of IFRS 2, share-based payments are required to be expensed over the vesting period. Any accelerated vesting of the awards and options requires immediate recognition of the unrecognised portion.		

		Group	
		2008 Rm	2007 Rm
17. Directors and employees (continued)			
17.2 Share-based payments (continued)			
Value of services provided:			
In respect of share awards and options granted subsequent to date of listing (refer note 17.3)		6.7	4.0
		R	R
Significant assumptions used were:			
Weighted average share price		56.40	46.59
Weighted average exercise price (for options only)		n/a	n/a
Weighted average expected volatility		42.6%	38.3%
Weighted average expected dividend yield		4.4%	4.9%
Weighted average risk-free rate (bond yield curve at date of grant)		8.7%	8.6%
The volatilities for the options granted after the date of the listing were based on the volatility of Lewis' share price from the date of listing to the date of granting the share awards and options.			
17.3 Share incentive schemes			
The employee share incentive schemes are in operation for employees, executives and directors holding salaried employment office. The aggregate number of shares which may be utilised for these schemes shall not exceed 10% of the issued share capital of the company.			
Lewis Executive Share Option Scheme			
Share options are granted to selected executives. The exercise price of the options is the average market price for the last three days, including the date of the grant or, in respect of options granted at date of listing, the listing price of the group's shares. Options vest between three and five years and must be exercised within ten years after been granted. In terms of the scheme's rules, the options vest immediately, should there be a change in control.			
Beginning of year		662 416	841 271
Granted		-	-
Forfeited		-	(89 432)
Vested and exercised by payment of consideration		(662 416)	(89 423)
End of year		-	662 416
		R	R
Average exercise price of outstanding options		n/a	28.00

notes to the annual financial statements

for the year ended 31 March 2008 *continued*

		Group	
		2008	2007
		No. of shares/options	
17. Directors and employees (continued)			
17.3 Share incentive schemes (continued)			
Lewis Executive Performance Scheme			
In terms of the scheme, senior executives have been offered the right to acquire shares of the group for no consideration subject to the achievement of performance targets. The shares will vest after three years and is conditional upon the executive still being in the employ of the company other than in the event of death, ill health, retirement or retrenchment.			
The performance targets are set by the Remuneration and Nomination Committee and are approved by the board. These targets will be set at the beginning of each of the three years and a proportionate number of the shares granted will be allocated to each year.			
No performance shares will accrue if the group achieves less than 90% of target. Any achievement between 90% and 100% of target will result in a proportionate accrual of shares weighted towards 100% of target.			
Beginning of year		185 639	–
Granted		184 270	205 400
Forfeited		(52 648)	(19 761)
Vested		(22 949)	–
End of year		294 312	185 639
Lewis Co-investment Scheme			
Senior executives are eligible for an annual bonus based on achievement of performance targets. These eligible executives can elect to invest all or part of their net bonus in the group's shares ("invested shares").			
These shares are deferred for three years and matching shares equal to the before tax bonus are awarded for no consideration at the end of the period. The matching share award will lapse, should the executive terminate his or her employment before the completion of the three-year period other than in the event of death, ill health, retirement or retrenchment.			
The grant in respect of the matching share option is as follows:			
Beginning of year		89 322	–
Granted		88 179	111 329
Forfeited		(3 393)	(14 672)
Vested		(6 787)	(7 335)
End of year		167 321	89 322
Invested shares paid for through the investment of executives' net bonuses amounted to 106 498 shares (2007: 53 592 shares). These shares are held by the Trust on the executives' behalf.			

	Group	
	2008	2007
	R	R
17. Directors and employees (continued)		
17.4 Directors' emoluments		
Non-executive directors – fees as directors		
D M Nurek	495 000	440 000
H Saven	341 000	310 000
B van der Ross	253 000	230 000
F Abrahams	253 000	210 000
	1 342 000	1 190 000
Executive director – A J Smart (paid by subsidiary)		
Salary	2 240 000	2 000 000
Bonuses	2 000 000	1 690 000
Contributions to pension scheme	358 400	320 000
Contribution to medical aid	42 000	37 362
Other material benefits	158 400	158 400
Gains on options	4 799 673	–
	9 598 473	4 205 762
Executive director – L A Davies (paid by subsidiary)		
Salary	1 100 000	n/a
Bonuses	900 000	n/a
Contributions to pension scheme	176 000	n/a
Contribution to medical aid	50 475	n/a
Other material benefits	161 520	n/a
Gains on options	1 094 652	n/a
	3 482 647	n/a
Gains on options – executive directors		2008
A J Smart		
Options exercised		219 428
Offer date		4 October 2004
Date exercised		25 May 2005
Date of release from undertakings not to dispose of shares		12 November 2007
Exercise price (R)		28.00
Exercise cost (R)		6 143 984
Sale proceeds/market value of shares transferred (R)		10 943 657
Gain		4 799 673
L A Davies		
Options exercised		50 000
Offer date		4 October 2004
Date exercised		26 May 2005
Date of release from undertakings not to dispose of shares		12 November 2007
Exercise price (R)		28.00
Exercise cost (R)		1 400 000
Sale proceeds (R)		2 494 652
Gain		1 094 652

notes to the annual financial statements

for the year ended 31 March 2008 *continued*

		Group	
		2008	2007
		No. of shares/options	
17. Directors and employees (continued)			
17.4 Directors' emoluments (continued)			
	Outstanding share awards and options – executive directors		
	Share options awarded under the Lewis Executive Share Option Scheme vested as a consequence of the disposal of its controlling interest by GUS in the prior year. The exercise price of these options is R28.00. In terms of a written undertaking, the directors agreed not to dispose of any shares they may become entitled to under these awards prior to 1 October 2007.		
	A J Smart	–	219 428
	L A Davies	–	n/a
	Share awards under Lewis Executive Performance Scheme granted (refer note 17.3):		
	Granted on 30 June 2006:		
	A J Smart	44 753	44 573
	L A Davies	22 287	n/a
	Granted on 11 June 2007:		
	A J Smart	34 718	
	L A Davies	17 049	
	Matching share options under Lewis Co-investment Scheme:		
	Granted on 30 June 2006:		
	A J Smart	36 344	36 344
	L A Davies	12 044	n/a
	Granted on 19 June 2007:		
	A J Smart	30 756	
	L A Davies	13 840	
	The Trust holds 55 789 shares (2007: 21 806 shares) on their behalf by virtue of the investment of their bonuses into the scheme.		
		2008	2007
		Rm	Rm
17.5 Remuneration of Key Executives			
	Salary	7.3	7.7
	Bonus	6.3	5.7
	Termination benefits	–	1.6
	Retirement and medical contributions	1.5	1.5
	Other benefits	0.7	0.6
		15.8	17.1

Key executives comprise the directors of Lewis Stores (Pty) Ltd, the main operating subsidiary.

		Group	
		2008	2007
		Rm	Rm
18. Lease commitments			
	The group leases the majority of its properties under operating leases. The lease agreements of certain store premises provide for a minimum annual rental payment and additional payments determined on the basis of turnover.		
	Payments on a cash flow basis:		
	Within one year	90.4	78.1
	Two to five years	208.7	208.3
	Over five years	–	1.2
		299.1	287.6
	Payments on a straight-line basis:		
	Within one year	92.0	81.9
	Two to five years	193.7	196.3
	Over five years	0.1	1.0
		285.8	279.2
19. Operating profit is stated after			
	Initiation and service fees on accounts receivable	95.7	36.7
	Surplus on disposal of property, plant and equipment	4.5	3.8
	Depreciation		
	Owned assets	40.9	38.5
	Leased assets	–	0.4
		40.9	38.9
	Fees payable:		
	Investment management fee – insurance investments	1.8	1.6
	Outsourcing of IT function	28.7	27.7
		30.5	29.3
	Operating lease payments on a cash flow basis	105.9	92.6
	Lease adjustment	4.9	2.1
	Operating leases on a straight-line basis	110.8	94.7
	Auditors' remuneration		
	Audit fees – current year	1.4	1.0
	– prior year underprovision	0.2	0.1
	Other services	0.3	0.6
		1.9	1.7

notes to the annual financial statements

for the year ended 31 March 2008 *continued*

	Group	
	2008 Rm	2007 Rm
20. Investment income		
Interest – insurance business	42.3	35.5
Dividends from listed investments – insurance business	7.3	5.6
Realised profit on disposal of insurance investments	22.1	1.6
	71.7	42.7
21. Net finance costs		
21.1 Interest paid		
Bank loans and overdrafts	68.1	26.9
Other	0.1	2.7
	68.2	29.6
21.2 Interest received		
Bank	(5.7)	(2.7)
Other	(0.8)	(1.3)
	(6.5)	(4.0)
21.3 Forward exchange contracts		
Realised	1.0	(13.6)
Unrealised	(5.9)	0.4
	(4.9)	(13.2)
21.4 Net finance costs	56.8	12.4
22. Taxation		
22.1 Taxation charge		
South Africa	285.6	275.2
Foreign	17.4	16.7
Taxation per income statement	303.0	291.9
Comprising:		
Normal taxation		
Current year	168.0	270.3
Prior year	0.5	4.9
Deferred taxation		
Current year	104.2	(9.2)
Prior year	(0.2)	(4.0)
Rate change	(0.1)	–
Secondary Tax on Companies	30.6	29.9
Taxation per income statement	303.0	291.9

		Group	
		2008 Rm	2007 Rm
22. Taxation (continued)			
22.2 The rate of taxation on profit is reconciled as follows:			
Profit before taxation		945.3	890.2
Taxation calculated at a tax rate of 29% (2007: 29%)		274.1	258.2
Disallowed expenditure/(exempt income)		(3.3)	2.9
Secondary Tax on Companies		30.6	29.9
Prior years		0.3	0.9
Differing tax rates in foreign countries		1.4	–
Rate change		(0.1)	–
Taxation per income statement		303.0	291.9
Effective taxation rate		32.1%	32.8%
23. Earnings per share			
23.1 Weighted average number of shares		000's	000's
Weighted average shares for earnings and headline earnings per share		89 583	92 062
Dilution resulting from share awards and options outstanding		220	396
Weighted average shares for diluted earnings and headline earnings per share		89 803	92 458
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.			
23.2 Headline earnings		Rm	Rm
Attributable earnings		642.3	598.3
Profit on disposal of property, plant and equipment		(4.5)	(3.8)
Profit on disposal of available-for-sale investments		(22.1)	(1.6)
Taxation		2.2	1.3
Headline earnings		617.9	594.2

notes to the annual financial statements

for the year ended 31 March 2008 *continued*

		Group	
		2008 Cents	2007 Cents
23.	Earnings per share (continued)		
23.3	Earnings per share		
	Earnings per share	717.0	649.9
	Fully diluted earnings per share	715.2	647.1
23.4	Headline earnings per share		
	Headline earnings per share	689.8	645.4
	Fully diluted headline earnings per share	688.1	642.7
		Rm	Rm
24.	Dividends paid		
	Dividend No.4 declared on 22 May 2006 and paid on 24 July 2006		137.0
	Dividend No.5 declared on 13 November 2006 and paid on 29 January 2007		116.0
	Dividend No.6 declared on 21 May 2007 and paid on 23 July 2007	150.0	
	Dividend No.7 declared on 12 November 2007 and paid on 28 January 2008	142.8	
	Dividends received on treasury shares:		
	Lewis Stores (Pty) Ltd	(27.1)	(17.3)
	Lewis Employee Share Incentive Scheme Trust	(3.0)	(3.9)
		262.7	231.8
25.	Notes to the cash flow statements		
25.1	Cash generated from operations		
	Operating profit	930.4	859.9
	<i>Adjusted for:</i>		
	Share-based payments	6.7	4.0
	Depreciation	40.9	38.9
	Surplus on disposal of property, plant and equipment	(4.5)	(3.8)
	Movement in provision for doubtful debts	18.3	9.5
	Movement in retirement benefits provision	(9.9)	(8.2)
	Movement in other provisions	14.0	11.1
	<i>Changes in working capital:</i>		
	Increase in inventories	(1.9)	(20.1)
	Increase in trade and other receivables	(440.3)	(295.3)
	Increase/(Decrease) in trade and other payables	2.5	(4.5)
		556.2	591.5
25.2	Taxation paid		
	Amount owing at the beginning of the year	(61.7)	(159.8)
	Amount charged to the income statement	(303.0)	(291.9)
	Adjustment for deferred taxation	103.9	(13.2)
	Amount owing at the end of the year	(29.6)	61.7
		(290.4)	(403.2)
25.3	Cash and cash equivalents		
	Cash deposits and cash on hand	66.8	35.7
	Overdrafts and short-term interest-bearing borrowings	(703.4)	(429.3)
	Cash and cash equivalents	(636.6)	(393.6)

26. Financial risk management

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

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

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

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

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

26.1 Credit risk

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

i) Accounts receivable

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

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

The process differs as follows:

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

notes to the annual financial statements

for the year ended 31 March 2008 *continued*

26. Financial risk management (continued)

26.1 Credit risk (continued)

i) Accounts receivable (continued)

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

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

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

	Group	
	2008	2007
	Rm	Rm
The total net receivable balance can be analysed as follows:		
Receivables satisfactory paid	2 207.0	1 933.0
Slow-paying and non-performing receivables which have been impaired	731.7	597.0
	2 938.7	2 530.0

The payment ratings categorise individual customers into 13 distinct categories and have been summarised into 4 main groupings:

		No. of customers		Doubtful debt provision %	
		2008	2007	2008	2007
Satisfactory paid:	No.	534 286	542 142	0%	0%
Customers fully up to date including those who have paid 70% or more of amounts due over the contract period	%	75.1%	76.4%		
Slow payers:	No.	51 759	47 959	17%	19%
Customers fully up to date including those who have paid 65% to 70% of amounts due over the contract period	%	7.3%	6.8%		
Non-performing customers	No.	47 130	44 463	42%	50%
Customers who have paid 55% to 65% of amounts due over the period of the contract	%	6.6%	6.3%		
Non-performing customers	No.	78 413	74 654	86%	100%
Customers who have paid 55% or less of amounts due over the period of the contract	%	11.0%	10.5%		
Total		711 588	709 218	13.5%	14.9%

26. **Financial risk management (continued)**

26.1 **Credit risk (continued)**

i) **Accounts receivable (continued)**

The ageing of satisfactory paid receivables past due but not impaired as a percentage of satisfactory paid receivables is as follows:

	Group	
	2008	2007
1 instalment in arrear	4.9%	5.2%
2 instalments in arrear	3.1%	3.1%
3 instalments in arrear	2.1%	2.0%
4 instalments in arrear	1.5%	1.4%
4 or more instalments in arrear	2.5%	2.4%
	14.1%	14.1%

ii) **Fixed income securities and deposits**

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

Deposits are placed with high-quality South African institutions. Included in the cash on hand and deposits are bank balances held in foreign currency amounting to R16.7 million (2007: R14.4 million).

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

26.2 **Market risk**

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

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

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

i) **Foreign exchange risk management**

Foreign exchange risk is present in respect of imports of merchandise, the net investment in Botswana and the linked policy investment which matured during the year.

Imports of merchandise

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

notes to the annual financial statements

for the year ended 31 March 2008 *continued*

26. Financial risk management (continued)

26.2 Market risk (continued)

i) Foreign exchange risk management (continued)

During the year, 26.6% (2007: 24.6%) of the purchases were in foreign denominated currencies. Below is a summary of the amounts payable under forward contracts:

	Term	Rate	Foreign currency FC 'm	Rand equivalent R'm	Fair value (gain)/loss R'm
2008		Rates vary from			
US dollar	Less than 3 months	R6.80 to R8.25	9.6	70.0	(5.9)
2007		Rates vary from			
US dollar	Less than 4 months	R7.13 to R7.45	7.9	57.4	0.4

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

	-10%	-5%	+5%	+10%
2008				
Effect on (profit)/loss	5.4	2.7	(2.7)	(5.4)
(Increase)/Decrease in equity	5.4	2.7	(2.7)	(5.4)
2007				
Effect on (profit)/loss	4.0	2.0	(2.0)	(4.0)
(Increase)/Decrease in equity	4.0	2.0	(2.0)	(4.0)

Net investment in foreign entities

The currency exposure is limited to the net investment in Botswana of R84.8 million (2007: R95.1 million), which includes a long-term loan account. The currency exposure is managed by keeping the net investment at a minimum practical level by remitting cash to South Africa on a regular basis through loan repayments and dividends.

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

	-10%	-5%	+5%	+10%
2008				
(Increase)/Decrease in equity	9.2	4.6	(4.6)	(9.2)
2007				
(Increase)/Decrease in equity	8.3	4.1	(4.1)	(8.3)

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

26. Financial risk management (continued)

26.2 Market risk (continued)

i) Foreign exchange risk management (continued)

Linked policy investment

Included in 2007 was a linked investment policy with Sanlam Life Insurance Limited. The underlying value of the policy was determined in US dollars with reference to the original investment and a growth in a basket of international indices. This policy matured during the current year.

ii) Interest rate risk

The principal objective of interest rate management is to:

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

Borrowings

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

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

	+50bp	-50bp
2008		
Effect on (profit)/loss	2.8	(2.8)
(Increase)/Decrease in equity	2.8	(2.8)
2007		
Effect on (profit)/loss	1.7	(1.7)
(Increase)/Decrease in equity	1.7	(1.7)

In order to hedge exposures in the interest rate profile of peak borrowings, the group may make use of interest derivatives and other hedging instruments in terms of limits specified in the group’s treasury policy approved by the Audit and Risk Committee. In the 2007 financial year, the group entered into a zero premium interest rate collar with the counterparty being a high-quality financial institution. The value of borrowings hedged and the fair value of these contracts as at 31 March 2008 are as follows:

	Notional amount Rm	Maturity date	Fair value (Rm)	
			2008	2007
Zero premium interest rate collars with the cap and floor rates referenced to the 3-month JIBAR rate:				
– commencing on 30 March 2007	150	31 Mar 2008	–	(0.1)
– commencing on 31 March 2008	100	30 Mar 2009	0.6	(0.1)
			0.6	(0.2)

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for the year ended 31 March 2008 *continued*

26. Financial risk management (continued)

26.2 Market risk (continued)

ii) Interest rate risk (continued)

Accounts receivable

Interest rates charged to customers are fixed at the date the contract is entered into. Consequently, there is no interest rate risk associated with these contracts during the term of the contract.

Interest rate profile

The interest rate profile of financial instruments are as follows:

	Term of investment	Average closing effective interest rate %	Floating or fixed	Carrying value Rm
2008				
Assets				
Gross instalment sale and loan receivables	Up to 3 years	30.8%	Fixed	3 539.8
Fixed income securities	Varies	9.4%	Fixed	312.9
Liabilities				
Overdrafts and short-term borrowings	Varies (refer note 14)	12.8%	Floating	703.4
2007				
Assets				
Gross instalment sale receivables	Up to 2 years	29.7%	Fixed	3 317.0
Fixed income securities	Varies	8.0%	Fixed	256.4
Liabilities				
Finance leases	3 years	9.0%	Floating	1.0
Overdrafts and short-term borrowings	Varies (refer note 14)	9.3%	Floating	429.3

iii) Price risk

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

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

The overall management objectives of the portfolio is:

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

26. Financial risk management (continued)

26.2 Market risk (continued)

iii) Price risk (continued)

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

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

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

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

	2008	2007
Modified duration of Monarch's fixed income portfolio	5.1	4.9
Modified duration of the JSE All Bond index	5.1	5.2

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

Portfolio sectoral analysis:		
Resources	22.5%	15.1%
Financials	20.3%	26.2%
Industrial	57.2%	58.7%
Beta of portfolio relative to JSE Index	0.88	0.89
Beta of portfolio relative to JSE Index, excluding resources	1.02	1.05

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

26.3 Liquidity risk

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

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

notes to the annual financial statements

for the year ended 31 March 2008 *continued*

26. Financial risk management (continued)

26.3 Liquidity risk (continued)

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

	2008	2007
	Rm	Rm
Total banking facilities	1 000.0	900.0
Less: drawn portion of facility	(703.4)	(429.3)
Plus: cash on hand	66.8	35.7
Available cash resources and facilities	363.4	506.4

An additional R200 million facility has been negotiated in principle, subject to certain conditions precedent, which will be fulfilled in the new financial year.

27. Insurance risk

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

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

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

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

	Group	
	2008	2007
	Rm	Rm
27. Insurance risk (continued)		
Movement in provisions:		
(i) Unearned premium reserve		
Opening balance	214.3	184.8
Movement during year	76.2	29.5
Closing balance	290.5	214.3
Comprising:		
Unearned premiums	479.1	346.7
Less: reinsurers' share of provision	(188.6)	(132.4)
Net balance	290.5	214.3
(ii) Insurance provisions		
Opening balance	26.0	23.2
Movement during year	6.8	2.8
Closing balance	32.8	26.0

Regulatory requirements

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

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

notes to the annual financial statements

for the year ended 31 March 2008 *continued*

	Held-to-maturity	Amortised cost	Loans and receivables	Available-for-sale	Fair value through profit and loss	Total
28. Financial instruments						
i) Categories						
Assets						
2008						
Investments – insurance business	159.5			505.4		664.9
Trade and other receivables			2 615.6			2 615.6
Cash on hand and on deposit					66.8	66.8
2007						
Investments – insurance business	115.4			545.0		660.4
Trade and other receivables			2 187.7			2 187.7
Cash on hand and on deposit					35.7	35.7
Liabilities						
2008						
Trade and other payables					166.9	166.9
Borrowings		703.4				703.4
2007						
Trade and other payables					185.6	185.6
Borrowings		430.3				430.3

ii) Maturity profile

The maturity profiles of financial instruments at 31 March 2008 are as follows:

	Average closing rate of interest %	0 – 12 months	2 – 5 years	>5 years	Total
Assets					
Available-for-sale insurance investments			312.9	192.5	505.4
Investments at fair value through profit and loss	11.3%	159.5			159.5
Trade and other receivables*	30.8%	2 615.6			2 615.6
Cash on hand and deposits	10.4%	66.8			66.8
Liabilities					
Bank overdrafts and short-term borrowings	12.80%	(703.4)			(703.4)
Trade and other payables**		(166.9)			(166.9)
		1 971.6	312.9	192.5	2 477.0

* Amounts due from instalment sale receivables after one year are reflected as current, as they form part of the normal operating cycle. The credit terms of instalment sale receivables range from 6 – 36 months.

** Trade and other payables reflect only financial liabilities, namely trade payables, accruals and other payables.

28. **Financial instruments (continued)**

iii) **Fair value estimation**

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

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

The carrying value of trade receivables and trade and other payables are assumed to approximate their fair values.

29. **Capital risk management**

The group's objectives when managing capital are to:

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

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

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

During the 2008 financial year, the strategy was to maintain the gearing between 20% and 30%, which in the current credit conditions is considered to be prudent. The gearing rates at 31 March 2008 and 31 March 2007 were as follows:

	Group	
	2008 Rm	2007 Rm
Interest-bearing borrowings	703.4	429.3
Less: cash and cash equivalents	(66.8)	(35.7)
Net debt	636.6	393.6
Shareholders' equity	2 730.0	2 527.2
Gearing ratio	23.3%	15.6%
30. Contingencies Bank and other guarantees given by the group to third parties. The directors are of the opinion that no loss will be incurred on these guarantees	8.1	7.6
31. Capital commitments Material capital commitments contracted for or authorised and contracted at the end of the year	35.0	-