

board of directors



Standing (from left to right): Hilton Saven and Ben van der Ross

Seated (from left to right): David Nurek, Professor Fatima Abrahams, Alan Smart and Les Davies

Executive directors

Alan Smart (64)

Chief Executive Officer

Alan Smart was appointed Chief Executive Officer of Lewis Stores (Pty) Ltd in 1991 and of Lewis Group on 22 June 2004. He is responsible for all aspects of the group.

Alan joined Lewis in 1969. During this period, he has held various financial and operational positions including Credit Director between 1981 and 1984 and Joint Managing Director between 1984 and 1991.

From 1995, in addition to his South African responsibilities, he was appointed Chairman of GUS Canada Inc., a retail furniture group of 65 stores in eastern Canada and oversaw a turnaround programme.

Les Davies (53) – CA(SA)

Chief Financial Officer

Les was appointed the group's Chief Financial Officer and to the Board of Lewis Group Limited on 1 April 2007 and has been the financial director of the main subsidiary Lewis Stores (Pty) Ltd since April 1989. As Chief Financial Officer, his responsibilities include the full accountability of all the group's financial aspects.

Les has over 25 years' experience in financial management within the retail industry. Prior to joining Lewis Stores, Les spent five years as the Financial Director of AMC Classic (Pty) Ltd. His experience covers a wide range of financial, administrative, legal, credit-related, insurance and statutory compliance matters.

On 10 November 2008, Les was appointed as Chief Executive Officer of the group's insurer, Monarch Insurance Company Limited ("Monarch"). He has been a director of Monarch for 15 years.

Non-executive directors

David Nurek (59) – Diploma in Law

Independent Non-executive Chairman of the board and Chairman of the Remuneration and Nomination Committee

David Nurek has been associated with the Lewis Group for over 20 years. He was appointed non-executive Chairman of Lewis Stores (Pty) Ltd in 2001 and as non-executive Chairman of the Board of Lewis Group on 15 July 2004.

David practised as a commercial attorney at Sonnenberg Hoffmann Galombik for more than 30 years, ultimately serving as Chairperson. In July 2000 he moved to Investec Bank and took up the position of Regional Chairman Western Cape, Investec Group. He also serves on the boards of, amongst others: New Clicks Holdings Limited, Foschini Limited and Sun International Limited.

David was appointed to the board of Monarch on 23 July 2007.

Hilton Saven (56) – BCom, CA(SA)

Independent Non-executive Director and Chairman of the Audit and Risk Committee

Hilton Saven was appointed as an independent non-executive director of Lewis Group on 22 June 2004.

Hilton is a chartered accountant and has pursued a career in the accounting profession since 1975 with the firm Mazars Moores Rowland, currently being the Senior Partner of the Cape Town practice and chairman of Mazars Moores Rowland South Africa. Hilton's varied professional experience across numerous sectors enables him to add substantial value in relation to the Lewis Group's accounting and financial disclosure obligation in relation to corporate governance and communication with shareholders. He is the independent non-executive chairman of Truworths International Limited.

Hilton Saven was appointed as a full director to the board of Monarch on 3 November 2008 and was also appointed the Chairman of Monarch's Audit and Risk Committee on that date.

Ben van der Ross (62) – Diploma in Law

Independent Non-executive Director

Ben van der Ross was appointed as an independent non-executive director of Lewis Group on 22 June 2004.

Ben practised as an attorney for 18 years and continues to consult for Van Der Ross Motala attorneys. He has been a director of the Urban Foundation, a director and later deputy CEO of the South African Rail Commuter Corporation Limited and Business South Africa. He was a commissioner of the Independent Electoral Commission for the first democratic elections in South Africa in 1994. Ben is currently appointed to the boards of among others: Naspers Limited, FirstRand Limited, Pick n Pay Stores Limited and Momentum Group Limited.

Professor Fatima Abrahams (46) – BEcon (Hons), MCom, DCom

Independent Non-executive Director and Chairperson of the Transformation Committee

Professor Fatima Abrahams was appointed as an independent non-executive director of the board of Lewis Group and its Remuneration and Nomination Committee on 1 September 2005. She is the chairperson of the company's Transformation Committee.

Fatima is currently a professor in the department of Industrial Psychology at the University of the Western Cape and is the chairperson of TSIBA Education. She is also a consultant in the human resources field. Currently, Fatima serves on the boards of Foschini Group Limited and New Clicks Holdings Limited as a non-executive director.

chairman's report



David Nurek independent non-executive chairman

The Lewis Group business model continued to show its resilience as the group delivered an admirable performance in the most demanding trading conditions experienced in the credit retail sector for many years.

Food prices have remained stubbornly high while transport costs have not dropped in line with lower international oil prices. These factors continued to impact discretionary spending in our target market. Lewis customers have limited exposure to asset-based finance and have therefore not been as severely affected by the current interest rate environment as higher income earning consumers.

We have seen some positive signs emerge later in the year as inflation started to slow, interest rates declined and political stability has returned following the general election. However, consumers remain under pressure, while the threat of wide-scale job losses remains a major factor in the economy.

Financial performance

The group has remained focused and adopted strategies which have delivered sustainable performance. Revenue increased by 5.9% and the group has generated strong cash flows. The financial stress on consumers has, however, translated into an increase in debtor costs and this has contributed to headline earnings per share declining 7.6% for the year.

The group's balance sheet remains strong and gearing at 23% is consistent with last year.

Importantly, the group has maintained its dividend and shareholders will again receive a total payout of 323 cents per share for the year.

It is interesting to note that cash returned to shareholders in dividends and share buy-backs has been R1.6 billion since

listing on the JSE in 2004. This is equivalent to 57% of the group's market capitalisation of R2.8 billion at the time of listing. The market capitalisation of the group was R4.2 billion at year-end.

Business model

Our business model is a competitive advantage and a key differentiator in a market where our peers have separated their furniture retail and financial services businesses and centralised credit collections.

The customer-centric model followed by Lewis is based on the premise that the selling of furniture and the provision of credit are entirely inter-dependent. Our store-based model ensures that long-term relationships are developed with customers and this, together with integrated credit and marketing strategies, results in a high level of repeat business.

In the current environment, the group's store-based collections model is proving effective as the direct relationship through monthly contact with customers provides an early indication of payment difficulties.

We believe that this model is the most appropriate for our market and is integral to the sustainability of our consistent performance over many years.

Directorate and management

Alan Smart, the group chief executive officer, will be retiring in September 2009 and I am pleased to advise that he will be succeeded by Johan Enslin, the chief executive officer designate, from 1 October 2009. Johan will be appointed to the board as an executive director.

Alan has served Lewis with great distinction over the past four decades, including 18 years as chief executive. Under his leadership, Lewis has grown into the market-leading furniture retail group with 535 stores nationally and an enviable track record of financial and operational performance. Alan steered the group through its transition to a public company and the successful listing on the JSE.

We are extremely pleased that Alan has accepted our invitation to serve on the board in a non-executive capacity. He is regarded as a doyen in the furniture industry and we are delighted to retain his extensive knowledge of the business and the credit retail sector.

On behalf of the board and the people of Lewis, we wish Alan a healthy and fulfilling retirement, and look forward to his continued contribution to the business.

Prospects

Continued government and private sector infrastructure spend bodes well for ongoing job creation and retention in the Lewis target market.

However, rising retrenchments and unemployment remains one of the major risks facing the South African economy in the year ahead. The group's national store base and diverse customer profile should limit the impact of unemployment affecting a particular sector of the economy or geographic region.

Trading conditions are expected to remain difficult in the year ahead. However, the improving trend in revenue growth and the slowing bad debt provision in recent months provide some encouraging signs.

Appreciation

On behalf of the board I would like to thank every one of our 6 480 staff in the Lewis Group for their unwavering commitment during these uncertain times. Alan and his management team have continued to show decisive leadership and our staff at head office and at stores across the country have remained focused on meeting the needs of our customers. Thank you to my fellow directors for their active participation in the company and for sharing their business insights.



David Nurek

Independent Non-executive Chairman



chief executive officer's report



Alan Smart group chief executive officer

Over the past year Lewis has continued to focus on its core strategies to ensure sustained profitability while minimising risk in the current downturn. The continuing support from our loyal customer base of close to 700 000 middle income South Africans has enabled Lewis to produce a creditable performance for the year.

Trading performance

Revenue increased by 5.9% to R3 807.1 million and merchandise sales grew by 1.6% to R1 919.9 million, a pleasing result in the economic climate. Revenue has shown an improving trend towards the latter stages of the financial year and increased by 6.6% in the second half relative to 5.0% in the first six months.

The group's merchandise strategy of sourcing quality, innovative product which offers real value for money has continued to be a competitive advantage. This strategy has resulted in a 4% increase in sales in the higher margin furniture product category which has grown to 53% of group sales. In the sub-categories, appliances (27% of sales) increased by 3.8% while the more discretionary sound and vision merchandise (20% of sales) slowed by 7%.

The Lewis division, which accounts for 82% of merchandise sales, increased revenue by 5.7%. Best Electric was boosted by the introduction of furniture ranges into stores and lifted revenue by 9.1%. The chain has been rebranded as Best Home and Electric to reflect this change in the merchandise offering. Revenue in Lifestyle Living, which targets higher income earners than the Lewis market, was the same as last year.

We have seen the benefit of customer loyalty in tough trading conditions and our store-based customer re-serve model resulted in a high level of repeat business. Store promotions