Lewis Group

Annual Report 2005

Lewis Group Ltd

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Lewis Group Annual Report 2005

Our Mission

Lewis seeks to improve the quality of life for all our stakeholders by positively impacting on their lives in many significant ways.
As such we seek to be:

- A trusted collection of brands;
- A learning organisation;
- An integral part of the community;
- An established, well-run business.

Our Values

Our values are echoed in the Lewis Group Pledge, which presents a code of behaviour that we stand by, having invested much time and focus in bringing it "to life" throughout the business.

Our Pledge

Our pledge contains five promises:

- We place excellent customer service first;
- We honour the highest standards of integrity;
- We value and are committed to our customers;
- We are totally dedicated to offering quality merchandise;
- We take pride in belonging to the Lewis Group.

Corporate **Profile**

Lewis Group Limited is a listed investment holding company with two major wholly-owned subsidiaries, Lewis Stores and Monarch Insurance Company, and a number of smaller trading wholly-owned entities.

Lewis Stores trades under the following retail brands:

- Lewis, the largest furniture brand in South Africa, sells a wide range of household furniture and electrical appliances to customers in the LSM 4 – 7 category.
- Best Electric, a specialist electrical appliance and audio-visual brand also targeting consumers in the LSM 4 – 7 category.

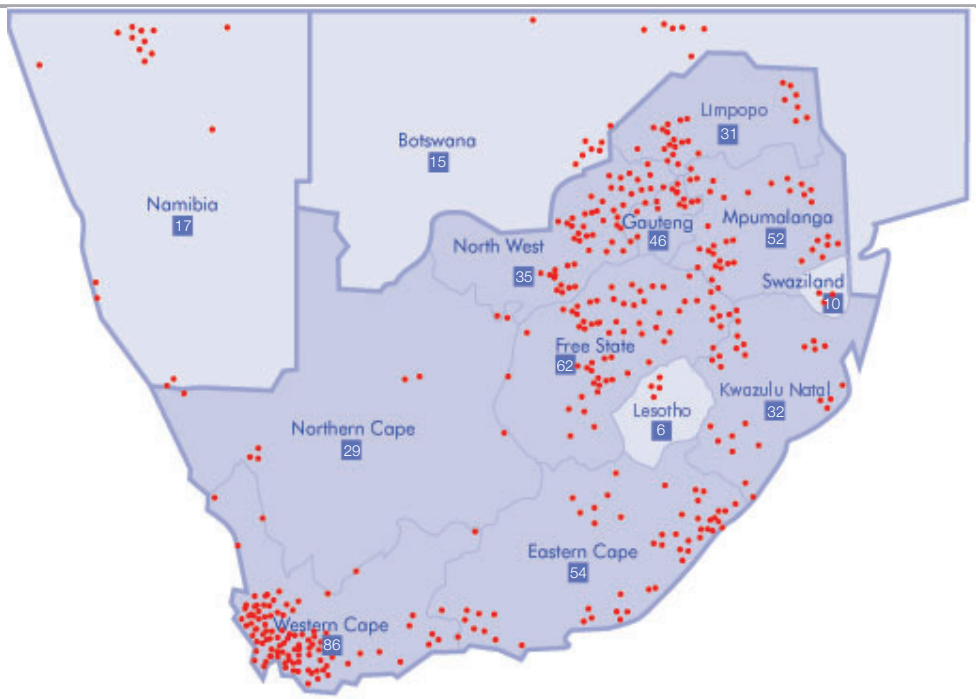
The Group has subsidiaries operating in Botswana, Lesotho, Namibia and Swaziland (BLNS). These subsidiaries trade under the Lewis brand.

Monarch Insurance Company is a wholly-owned subsidiary of Lewis Group offering Customer Protection Insurance products to the Group's South African customer base. Customers in the BLNS countries are offered insurance through registered third-party insurers operating in those territories.

Lifestyle Living, a niche furniture retailer, was acquired by the Group in October 2003. This brand is positioned in the LSM 8 – 10 market.

The Lewis Group Limited's shares were listed on the JSE Securities Exchange on 4 October 2004.

Store locations – **Southern Africa**



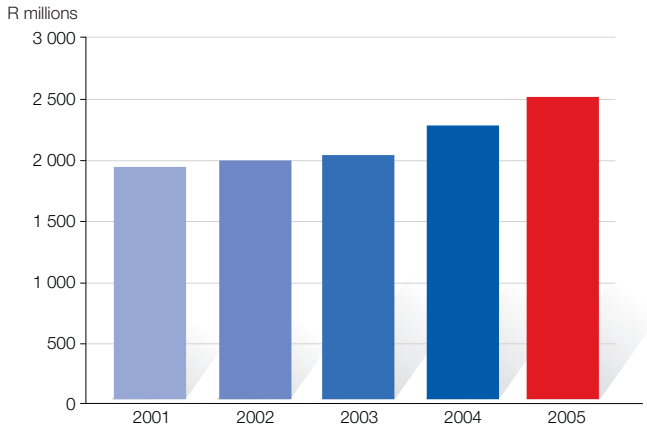
SOUTH AFRICA	Lewis Stores	Best Electric	Lifestyle Living
Western Cape	56	16	14
Eastern Cape	46	7	1
Northern Cape	28	1	–
Free State	57	5	–
KwaZulu-Natal	32	–	–
North West	30	5	–
Gauteng	36	8	2
Mpumalanga	43	9	–
Limpopo	26	5	–
NAMIBIA	17	–	–
LESOTHO	6	–	–
SWAZILAND	8	2	–
BOTSWANA	15	–	–
Stores as at 31 March 2005	400	58	17
Total Stores	**475**		

Financial Highlights

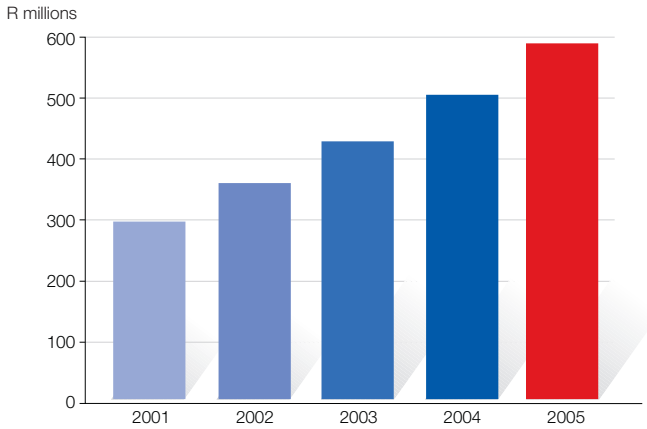
	2005 Rm	2004 Rm
Income Statement		
Revenue	**2 511.5**	2 274.7
Operating profit	**589.7**	505.6
Profit before finance costs and taxation	**635.6**	540.5
Net finance costs	**(42.7)**	(141.7)
Profit before taxation	**592.9**	398.8
Taxation	**(184.0)**	(111.5)
Profit attributable to ordinary shareholders	**408.9**	287.3
Headline earnings	**404.3**	287.6
Cash Flow Statement		
Cash generated from operations	**625.2**	508.9
Performance per Share (cents)		
Earnings per share	**408.9**	287.3
Headline earnings per share	**404.3**	287.6
Cash flow per share	**625.2**	508.9
Dividends per share for the financial year	**135.0**	n/a
Net asset value per share	**2 059.4**	1 310.0
Financial Ratios		
Operating margin	**23.5%**	22.2%
Return on average shareholders' equity	**24.3%**	24.8%
After-tax return on average capital employed	**18.6%**	17.0%
After-tax return on average assets managed	**16.2%**	14.4%
Gearing ratio	**6.1%**	60.9%
Financing cover (times)	**14.9**	3.8
Dividend cover (times)	**3.0**	n/a

Financial Highlights

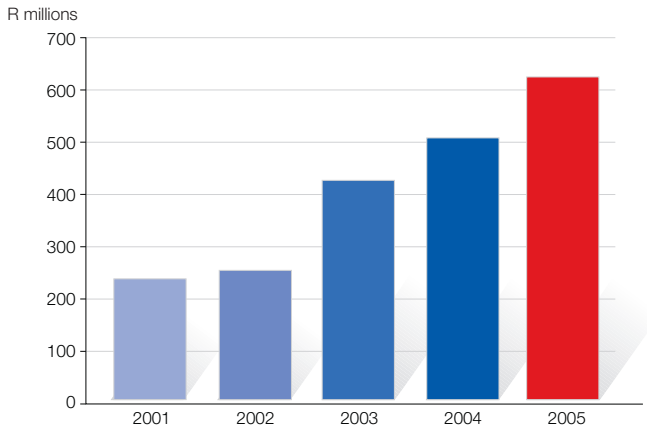
Revenue



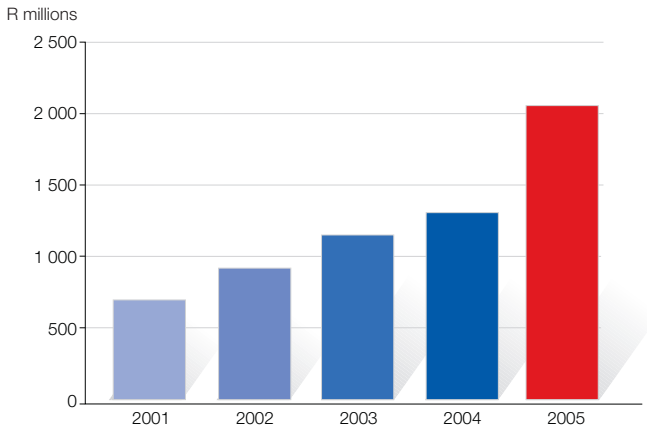
Operating profit



Cash generated from operations



Net asset value



Board of **Directors**

Executive and Non-executive Directors

David Nurek, Hilton Saven, David Tyler, Ben van der Ross and Alan Smart.

Executive Director

Alan Smart

Chief Executive Officer (60)

Alan Smart was appointed Chief Executive Officer of Lewis Stores (Pty) Ltd in 1991 and of Lewis Group on 22 June 2004.

Alan joined Lewis in 1969. Prior to being appointed Chief Executive Officer he held the position of Joint Managing Director of Lewis Stores (Pty) Ltd from 1984 to 1991 with responsibility for store operations and credit.

Alan previously occupied the position of Credit Director from 1981 to 1984 and prior to that, he held various financial control positions within the Lewis Group.

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 prior to the sale of part of the business and the collection of the debtors book of that company in 2000.

Alan was appointed to the Board of GUS plc in 1996 and subsequently resigned on 3 October 2004.

Non-executive Directors

David Nurek

Independent Non-executive Chairman of the Board (55) – Diploma in Law

David Nurek 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. He resigned from the Board of Lewis Stores (Pty) Ltd in August 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 his current position with Investec Bank, as Regional Chairman Western Cape Investec Group. He also serves on the boards of, amongst others: New Clicks Holdings Limited, Foschini Limited and Pick 'n Pay Stores Limited. David has been associated with the Lewis Group for more than 20 years.

David Tyler

Non-executive Director (52) – MA, FCMA, MCT

David Tyler was appointed as non-executive director of Lewis Stores (Pty) Ltd in July 2003 and of Lewis Group on 22 June 2004. He resigned from the Board of Lewis Stores (Pty) Ltd in August 2004.

David graduated from Cambridge University, where he read Economics, in 1974.

He has worked for a number of companies incorporated in the United Kingdom. He spent the first 11 years of his career working for Unilever plc, in a variety of financial, commercial and strategic positions. In 1986 he joined County NatWest plc, where he worked in senior financial control roles. He then worked for Christie's International plc, from 1989 to 1996 as Finance Director and as President of Christie's America, a division of Christie's International plc. David has been Finance Director of GUS plc since February 1997. Aside from his financial role, he also has responsibility for the development of Group strategy and operational responsibility for some of GUS plc's smaller businesses. Since June 2002, he has been a non-executive director of Burberry Group plc.

He is a Fellow of The Chartered Institute of Management Accountants and a Member of The Association of Corporate Treasurers in the United Kingdom.

Hilton Saven

Independent Non-executive Director (52) – B.Com, CA(SA)

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

Hilton is a Chartered Accountant by training and has pursued a career in the accounting profession since 1975 with the firm Moores Rowland, currently being the Senior Partner of the Cape Town practice and chairman of Moores Rowland South Africa. He sits on the board of Moores Rowland International, which is an association of independent accounting firms throughout the world. He consults widely to private and public companies, particularly in the sphere of corporate finance and holds various directorships. His 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, transaction structuring and communication with shareholders. He is an independent non-executive chairman of Truworths International Limited.

Ben van der Ross

Independent Non-executive Director (58) – Diploma in Law

Ben van der Ross was appointed as an independant 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 Independent Development Trust and 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.

Chairman's **Report**

David Nurek

Lewis Group: A solid, stable, prudent and sustainable business with a long track record of delivering consistent shareholder value.

Introduction

The highlight of the year was clearly the debut of the Lewis Group on the Securities Exchange South Africa (JSE) on 4 October 2004. This was truly a momentous event in the Group's 70 year history.

The response from the investment community locally and abroad to the initial public offering (IPO) and subsequent listing was most favourable. The share listed at R28.00 and reached a high of R41.50 in mid-November, closing the year at R33.51. This resulted in an increase of over R500 million in the Group's market capitalisation.

Subsequent to the year-end GUS disposed of its remaining interest in Lewis through a bookbuilding procedure. This has improved the free float and liquidity of Lewis shares, answering the demand of institutional shareholders since listing and removing the uncertainty as to GUS' intentions in relation to its residual stake.

It has been encouraging to see how the business has managed the transition to a listed environment, which brings with it an increased market profile, greater external scrutiny, enhanced disclosure and more demanding reporting. At the time of listing, all staff received an allocation of shares funded by GUS. Many of these people now not only own shares for the first time but were also given the opportunity to hold an equity stake in the company for which many of them have worked for several years.

It has been rewarding to see how this has both empowered and motivated the staff.

The economic climate during the year was characterised by low interest and inflation rates, relatively low household debt and a strong currency. This led to buoyant consumer and retail confidence. It laid the foundation for a strong performance from the retail sector, particularly credit-based retailers, and the furniture sector and the Lewis Group were no exception.

Financial review

In the year under review, revenue increased by 10.4% to R2 511.5 million (2004 – R2 274.7 million), with merchandise sales growing by 13.6% to R1 351.9 million (2004 – R1 190.4 million).

Operating profit rose 16.6% to R589.7 million (2004 – R505.6 million).

Headline earnings increased by 40.6% to R404.3 million. This increase can be attributed to positive trading conditions, lower bad debt and impairment charges flowing from further improvements in the quality of the debtors book and lower finance costs due to the capital restructuring shortly before the IPO.

A dividend policy of three times covered has been adopted, and accordingly shareholders received a total dividend of 135 cents per share for the year.

Lewis is a highly cash-generative business, with efficient working capital management and a strong balance sheet resulting in gearing being at 6.1% (2004 – 60.9%).

The investment case

The Company has a proven customer-focused business model which is based on convenience, choice, credit and loyalty. These strengths, together with the operating efficiency of the business, make a compelling investment case. As this is the maiden annual report, I believe it is appropriate to summarise the key strengths of the business – which were outlined in detail in the pre-listing prospectus – to highlight the features that make the business attractive to existing and potential investors alike.

Convenience

Lewis is an established credit-based furniture retailer with an extensive store network covering metropolitan and rural areas, backed by an efficient delivery process handled at store level.

Choice

Lewis has a well-established supply chain and offers its differentiated and exclusive merchandise range to attractive, growing target markets.

Credit

The advanced credit management systems and well-managed debtors book are core to the Company's success, with a range of credit and loan products offered to customers. The Group is also able to sell financial products to its extensive customer base.

Loyalty

Repeat sales of approximately 61% (2004 – 61%) indicate the high level of customer loyalty.

Operational efficiency

Lewis has a strong trading record, a culture of cost efficiency, a continual focus on generating high operating margins and has a highly experienced management team.

Corporate governance

Regulatory, accounting and disclosure requirements have intensified for listed companies in recent years. The focus on corporate governance has also heightened, along with increasing pressures for companies to report on non-financial performance.

Following the appointment of the newly-constituted Board, the directors have focused on implementing formal governance processes. The Group complies in all material respects with King II and the governance practices and policies that have been adopted are outlined in the Corporate Governance Report on page 36.

We have an experienced Board of directors, with extensive knowledge of the Company and the retail sector. Importantly, they are also experienced as directors of listed companies and we are committed to continually enhancing governance standards.

Directorate

Alan Smart, David Tyler and I who were previously board members of the wholly-owned operating company, Lewis Stores (Pty) Ltd, were appointed to the Lewis Board along with Hilton Saven and Ben van der Ross. The Board consists of three independent non-executive directors, one non-executive director (David Tyler representing GUS) and one executive director, reflecting a balance in line with best corporate governance practice.

Prospects

Consumer confidence is expected to remain buoyant in the year ahead as the economy currently shows little sign of slowing down. The interest rate and inflation environment are expected to remain stable and the social and economic climate prevailing in South Africa in recent years has, and will continue to contribute to the buoyant retail sector. The transformation process in South Africa over the past 10 years has increased the size of the middle income market and Lewis is ideally positioned to service that market. The government's large-scale capital expenditure on infrastructure development that is planned over the next few years is also expected to directly benefit middle income South Africans who form a significant part of the Lewis Group's target market.

These factors, coupled with continued focus on its business model should result in real growth in revenue and merchandise sales. The Board believes that meaningful real growth in headline earnings will be achieved in the year ahead, although not necessarily at the same high rate experienced in 2005.

Thanks

This year was particularly challenging for the senior management team who not only ensured that the Company produced a strong financial performance, but also had the additional pressure of listing the Company. Alan and his team are to be congratulated for what they have achieved on all fronts. We also thank the advisers and professional team that steered us through the listing process.

To our shareholders, we say thank you for your support and trust that the confidence you have shown in the Group will be rewarded. Thanks are also due to my fellow directors for the counsel you have provided. I would also like to acknowledge the contribution of the head office and store staff around the country and thank you all for a job well done.

At the core of our business are our loyal customers who make it all possible, and to each an every one of you we extend our gratitude. You give new meaning to our slogan – "Lewis – we are family".

DAVID NUREK

Independent Non-executive Chairman

Chief Executive Officer's **Report**

Alan Smart

Understanding who our customers are and what their needs and aspirations are, is a primary focus of the Lewis Group. By staying close to our customers and understanding their diverse lifestyles, we aim to retain them for life.

Introduction

It is indeed a pleasure to report to shareholders on the maiden financial results of the Lewis Group since becoming a listed company. We are extremely proud of what has been achieved on the financial, trading, operational and transformation fronts.

Positive trading environment

The current retail trading environment is one of the most positive experienced by furniture and appliance retailers in the past three decades. It is particularly encouraging that a combination of factors that have contributed to the buoyant trading environment are both structural in nature and cyclical. This means that the growth levels should be more sustainable.

Consumer confidence and expenditure has been stimulated by a decline in interest rates during the year, the ongoing reductions in income tax and above-inflation wage increases. Household debt in South Africa is currently at low levels.

The Minister of Finance is once again to be commended for his efforts to reduce the income tax burden of middle income South Africans, and we welcome the further tax relief of over R7 billion which was granted in the parliamentary budget in February this year.

Segments of the Company's target market have also benefited from the development of water and electricity infrastructure in previously under-serviced areas as well as the delivery of an increasing number of houses for first-time owners.

The rapid growth of the so-called emerging middle class and the related increase in spending power of this group is benefiting retailers like the Lewis Group operating in the middle income consumer market.

The growth of the emerging middle class also leads to more conspicuous consumption of status items, with newly-affluent consumers spending a large amount of their income on motor cars, clothing, furniture and appliances.

Price deflation has proved a challenge to manage owing to the continued strengthening of the Rand against the US dollar. While this has impacted Rand sales, it has also stimulated unit sales and the level of cash sales, notably in electrical goods. The value on offer has led to customers in higher income groups shopping in our stores for the first time.

The growth is continually creating new opportunities and we believe that this structural shift in the middle class together with the stable economic environment will maintain the current momentum in the industry and within the Lewis Group.

Trading performance

Financial and operational summary for the Lewis Group:

	2005	2004
Revenue (Rm)	2 511.5	2 274.7
Revenue growth (%)	10.4%	11.6%
Merchandise sales growth (%)	13.6%	16.4%
Comparable store merchandise sales growth (%)	9.6%	12.9%
Annual operating income (Rm)	589.7	505.6
Annual operating income growth (%)	16.6%	17.8%
Stock turn (times)	5.7	5.1
Number of stores	475	465
Total trading space (m^2)	207 595	205 793
Annual revenue per m^2 (R'000)	12.1	11.1
Operating profit per m^2 (R'000)	2.8	2.5
Credit sales (%)	74.9%	81.8%

Revenue increased by 10.4% to R2 511.5 million, with a strong contribution from merchandise sales which grew by 13.6% to R1 351.9 million off last year's high base. Unit sales volumes increased by 17.9%. Existing store merchandise sales increased by 9.6%.

This robust growth in merchandise sales can be attributed to:

- the strongly differentiated merchandise range through the success of design and exclusivity programme with key suppliers;
- enhanced marketing and awareness of the value-for-money offering;
- constantly improving quality of merchandise; and
- customer focus and superior service levels.

The Lewis chain grew merchandise sales by 10.6% to R1 176.1 million; Best Electric by 26.2% to R125.0 million and Lifestyle Living, which was acquired in October 2003, posted merchandise sales of R50.8 million.

The business model is founded on a high proportion of credit-based sales. We believe that the trend of increasing cash sales will ease as price deflation slows with the Rand's strength working itself into the comparative base.

On a geographical basis, 89.3% (2004 – 89.1%) of revenue was generated from our South African operations, with the balance attributable to the operations in Botswana, Lesotho, Namibia and Swaziland.

Insurance premiums grew by 7.6% and finance charges were flat on last year. These revenue items were impacted by the increase in the ratio of cash versus credit sales and the lower interest rates which prevailed during the year.

Gross margins have reduced by 1.4% as a result of lower interest and insurance premiums earned.

Sector-leading operating profit margins increased from 22.2% to 23.5%, driven mainly by strong sales growth, further improvements in the quality of the debtors book, improved efficiencies and cost savings. A cost culture has been ingrained into the Lewis Group and efficiencies have been extracted consistently over several years.

The bad debt and impairment charge has declined from 4.4% of gross debtors in 2004 to 3.8% as a consequence of the improved credit environment, better collections and credit management focusing on profitable business at an acceptable level of risk. We are now benefiting from the implementation of improved credit management strategies developed over many years and this will continue to be a major focus of our business as new credit risk models are implemented. Cash generated from operations has increased by 22.9% as a result of the strong collections, improved efficiencies and cost controls.

In the year under review, the Group increased its number of stores from 465 to 475. Four new Lewis stores were opened, four were closed and six relocated, with the chain trading out of 400 stores at year-end.

Best Electric continued its aggressive store opening programme, increasing the number of stores by 11 to 58.

The Lifestyle Living store portfolio continues to be re-evaluated in line with the revised business model. During the year three stores were opened and four closed, bringing the total stores to 17.

Revenue and operating profit per square metre increased by 9.5% to R12 098 and 15.6% to R2 841 per square metre respectively over the previous year. Revenue and operating profit per employee increased by 8.6% to R427 853 and 14.8% to R100 460 per employee respectively.

Brand position and performance

Lewis is the largest furniture brand in South Africa with 400 stores and was ranked second in the Markinor report of 2004 in terms of weighted brand awareness among furniture retailers. Merchandise sales increased by 10.6% and comparable store growth growing by 10%. Further expansion in selected areas is planned.

Best Electric, our specialist electrical appliance and audio-visual retail chain, is progressing well with merchandise sales increasing by 26.2% and comparable store growth by 11.5%. Started in 1998, the store base of this chain has grown to 58 stores. Best Electric will continue to increase its footprint across South Africa in the coming years.

Lifestyle Living was acquired by the Group in October 2003. The Group is revising the business model to encourage more sales with the development of "new format" stores. Lifestyle Living has been successfully migrated into the Company's systems during the year and will benefit in future from this rationalisation of administration, improved logistics and access to capital for store expansion.

Black economic empowerment

The Lewis Group is committed to sustainable transformation across all aspects of the business, including share ownership, employment equity, procurement and social investment.

While acknowledging that we have some way to go in our quest to become a truly transformed organisation, we have nevertheless made steady progress in the past year.

Employment equity

Lewis is fully compliant with the Employment Equity Act and is currently on track to achieve its targets.

Procurement

Our procurement policy favours mainly medium-sized suppliers. More than 60% of lounge furniture, 19% of bedding, 9% of bedroom suites and more than 24% of other furniture lines are purchased from BEE suppliers. In addition, over 90% of our delivery fleet is also purchased from a BEE supplier.

Social investment

The Group contributes to the economic and social upliftment of the communities in which it operates.

Share ownership

The Company will explore broad-based empowerment opportunities which will ideally provide a direct business benefit to the Group. On listing, black employees were granted 77% of the shares made available to general staff.

Further details on BEE initiatives and social investments are outlined in the Corporate Governance Report.

Credit legislation

The much-debated National Credit Bill is due to be enacted during 2005, and the Company supports the Department of Trade and Industry (DTI) in its endeavours to regulate credit granting to protect consumer rights and to create a sustainable and responsible credit industry.

While any regulatory compliance is not without additional administration and related costs, this proposed legislation will seek to outlaw reckless credit granting and go a long way to further enhance the image of the South African credit industry.

We have made extensive submissions on the National Credit Bill to the DTI through the Furniture Traders Association of South Africa. As a responsible corporate citizen and credit provider, the Lewis Group welcomes these positive steps.

Industry rationalisation

Industry consolidation has become increasingly commonplace over the past decade as companies seek to grow their businesses by acquiring competitors rather than purely pursuing organic growth. The furniture and appliance industry in South Africa has not escaped this trend.

Following major consolidation in 2002 and 2003 when more than 300 stores were closed, the sector is facing further potential rationalisation as two large furniture retailers have been granted approval to merge their operations in March 2005.

Any further consolidation would create opportunities for Lewis to capitalise on its extensive store network.

Corporate governance

We are committed to an ongoing improvement in governance standards to ensure that the interests of the Group and its shareholders are never compromised. Our efforts in this regard are contained in the Corporate Governance Report.

We will further enhance disclosure on non-financial issues which provide shareholders with an assessment of the long-term sustainability of the business. Corporate citizenship issues have been addressed in the Corporate Governance Report and we plan to expand our reporting in this area in subsequent years.

Strategies for growth

The Group has identified the following key strategies to improve sales, margin, profitability and ultimately return on equity:

- *Expand the store base*
  - The growth in the emerging middle class has created opportunities to expand the chain in metropolitan areas, and relocate stores into better positions. We have identified some 25 additional towns where **Lewis** would like to establish a presence within the next three years, and expects to open eight stores in the year ahead.
  - The success of the **Best Electric** concept of having small stores in high traffic areas has created expansion opportunities, and it is anticipated that an additional 12 to 15 stores will be opened in 2005/2006. The brand has the potential to grow to over 120 stores in the long term.
  - **Lifestyle Living** was acquired to enable the Lewis Group to expand its customer base into a higher income market segment, leveraging off its experience in the furniture sector. While the business model of the brand is currently being re-evaluated, it is anticipated that a further selected expansion will occur in the year ahead.
- *Increase turnover of existing stores*
  - Constantly enhance the merchandise offering to ensure differentiation in style and value for money.
  - Maintain strategic alliances with key suppliers to ensure exclusivity of product, design features and margin opportunity.
  - The introduction of upgraded merchandise in key product categories to cater for the more expensive needs of some Lewis customers. This strategy has been in place for the past two years with encouraging results.
  - Expand merchandise ranging to include a variety of allied household items.
- *Acquisitions*
  - The Group will continue to evaluate related business acquisitions that add value.
- *Develop ancillary services and products*
  - Continue to explore all opportunities to maximise the customer footprint of the Lewis Group, either through strategic partnerships or independent ventures.

In conclusion it has been a momentous year for the Group with its listing on the JSE Securities Exchange and a successful year of trading. There are a number of challenges that lie ahead, but we believe that the Company has the management team and staff to meet these challenges. I would like to thank each staff member throughout the Company for their considerable contribution towards these results. My colleagues and I are proud to be associated with so many dedicated and committed individuals.

To our suppliers and manufacturers – thank you for your support and contribution to our results. Last but not least, I wish to thank members of the media and the investment community. Since listing in October 2004 it has been a pleasure interacting with you.

Alan Smart.

ALAN SMART
Group Chief Executive Officer

Executive Committee

Derek Loudon, Alan Solomon, Ivan King and Chris Heiberg.

Chris Heiberg

Group Marketing/Merchandise Executive (57)

Chris Heiberg joined the Lewis Group in June 1975. He became a regional controller in April 1980, a Divisional General Manager in April 1982 and a director of Lewis Stores (Pty) Ltd in February 1984. Chris is now responsible for all marketing and merchandising across the Lewis Group.

Derek Loudon

General Manager, Merchandise (41)

Derek Loudon was appointed General Manager: Merchandise of Lewis Stores (Pty) Ltd in May 2000. His retail experience extends from 1981 when he began ten years with the Pick 'n Pay Stores Limited Group, where his career evolved from trainee floor manager to buyer. Derek gained production experience with Airflex Furniture Industries (Pty) Ltd as procurement manager before joining Morkels Limited for eight years where he was the electrical merchandise executive from 1997 to 1999. During this time, Derek travelled extensively around the world sourcing products in North and South America, Europe, the Middle East and Asia.

Alan Solomon

General Manager, Marketing (47)

Alan Solomon was appointed General Manager: Marketing of Lewis Stores (Pty) Ltd in May 2002. Prior to this, he had his own marketing and advertising consultancy following seven years as creative and marketing manager for Moregro Limited from May 1992 to January 1999. Alan has been creative director and copy chief for both above and below-the-line advertising agencies and has been involved in all aspects of advertising since 1979. His agency experience includes working at BBDO (Cape) (Pty) Ltd from 1983 to 1985, Young & Rubicam Inc from 1985 to 1986 and Bates Wells from 1986 to 1990.

Ivan King

Merchandising Executive, Lifestyle Division (53)

Ivan King started his career in retail furniture in 1969 in Zimbabwe and moved to South Africa in 1976 where he joined a leading bedding manufacturer. In 1988 he moved to Montays Limited as a Merchandise Executive. Montays Limited was subsequently bought out by Rusfurn Group Limited which was in turn taken over by JD Group Limited. In 1995 he left the JD Group Limited and started the Freedom Furnishers business which was bought out by Profurn Limited and subsequently the JD Group Limited. In April 2003 Ivan was part of the management buy out of the Freedom Furnishers business by Lifestyle Living.

Ferdi Lamprecht

Group Property and Development Executive (63)

Ferdi Lamprecht joined the Lewis Group in 1978 as Manager: Property and Development and in 1984 he was made responsible for managing the Lewis Group's property portfolio and leases. He was appointed a director of Lewis Stores (Pty) Ltd in February 1984.

During his 25 years with the Lewis Group, Ferdi has been instrumental in the increase in the number of stores. Ferdi retired at the end of March 2005.

Jan Horn

General Manager, Human Resources (47) – B.Com, B.Com (Hon), M.Com, MBA

Jan Horn joined the Lewis Group in July 2001 to manage the human resources function. Before joining the Lewis Group, Jan worked at Pep Stores (Pty) Ltd ("Pep Stores") as a personnel manager for 13 years where his responsibilities

Neil Timm, Johan Enslin, Jan Horn, John Young, André Strydom and Ferdi Lamprecht.

ranged from human resources to personnel and salary administration.

Prior to working at Pep Stores, Jan spent two years in human resources at Anglo American Corporation of South Africa Limited and four years with Atlantis Diesel Engines (Pty) Ltd.

Johan Enslin

General Manager, Operations (31)

Johan Enslin joined the Lewis Group as a salesman in August 1993. Later that year, he was promoted to branch manager, managing four different branches, prior to becoming an assistant regional controller in 1996.

In April 1997, Johan was promoted to regional controller. In 2000 he became Divisional General Manager, managing 67 branches. In April 2002 he was promoted to General Manager: Operations and is now responsible for the day-to-day operational management of all stores.

John Young

General Manager, Credit Operations (56)

John Young joined the Lewis Group in January 1972 as a salesman in Windhoek with the acquisition of Lewis (Namibia). He was promoted to branch inspector in 1974 for Namibia and the Boland. In 1978 John was promoted to branch manager and managed various stores.

He was then employed for two years by Iscor Limited as a buyer. In 1984 John was re-employed by the Lewis Group and was promoted to regional controller of Gordonia and Goldfield Regions in 1986.

John then went on to become Divisional General Manager of the Central Division, the largest division in the Lewis Group. After five years, he was promoted to head office as General Manager: Credit Operations.

André Strydom

General Manager, Best Electric (32)

André Strydom joined the Lewis Group in 1995 as a trainee manager. He subsequently held positions of assistant regional controller and regional controller. In 2001 he was made head office Credit Manager for Lewis Stores (Pty) Ltd.

During 2002 he joined the Best Electric division and was promoted to Divisional General Manager. In 2004 he was promoted to General Manager: Best Electric and is now responsible for the day to day running of all Best Electric stores.

Neil Timm

Operations Executive, Lifestyle Division (49)

Neil Timm started in the furniture trade at Montays Limited in 1978. He quickly rose in rank and was appointed branch manager in 1980 and later divisional manager. He became Group Merchandise/Marketing Director of Montays Limited in 1986. The company was subsequently taken over by Rusfurn Group Limited and then by the JD Group Limited. In 1995 Neil left JD Group Limited and started the Freedom Furnishers business which was bought out by Profurn Limited and subsequently the JD Group Limited. In 2003 he was part of the management buy out of the Freedom Furnishers business by Lifestyle Living.

Executive Committee continued

Charles Irwin, Kenny van Aardt, Brett van Aswegen, Paul Croucher and Les Davies.

Les Davies

Chief Financial Officer (49) – CA(SA)

Les Davies has been with the Lewis Group for 17 years and was appointed as Lewis Stores (Pty) Ltd's Financial Director in July 1989. His experience covers a wide range of financial, administrative, legal, insurance and statutory compliance matters. A qualified Chartered Accountant, Les spent five years as Finance Director of AMC Classic (Pty) Ltd before joining the Lewis Group.

Paul Croucher

Company Secretary (42) – B.Com (Hons) CA(SA) ACMA

Paul Croucher joined the Lewis Group in February 2004 as the Group Management Accountant and was appointed Company Secretary on 19 November 2004. Prior to joining the Lewis Group, Paul spent 14 years at PricewaterhouseCoopers as an Audit Manager, specialising in the retail and manufacturing industries. Paul qualified as a Chartered Accountant and completed his articles at Ernst and Young in 1988. He is also an Associate member of the Chartered Institute of Management Accountants.

Charles Irwin

Group IT Executive (51)

Charles Irwin joined the Lewis Group in February 1998 and became a director of Lewis Stores (Pty) Ltd in March 1999. He has spent his entire working career in the retail industry. He has worked his way through the ranks of operational management in the fields of consumer credit, fast moving consumer goods, mass merchandising and general retail management. Charles made the transition to information technology in 1985 after qualifying in information technology project management and prior to joining the Lewis Group spent nine years in information technology at McCarthy Limited, a national retail organisation.

Brett van Aswegen

General Manager, Credit Risk (30) – B.Com, MBA

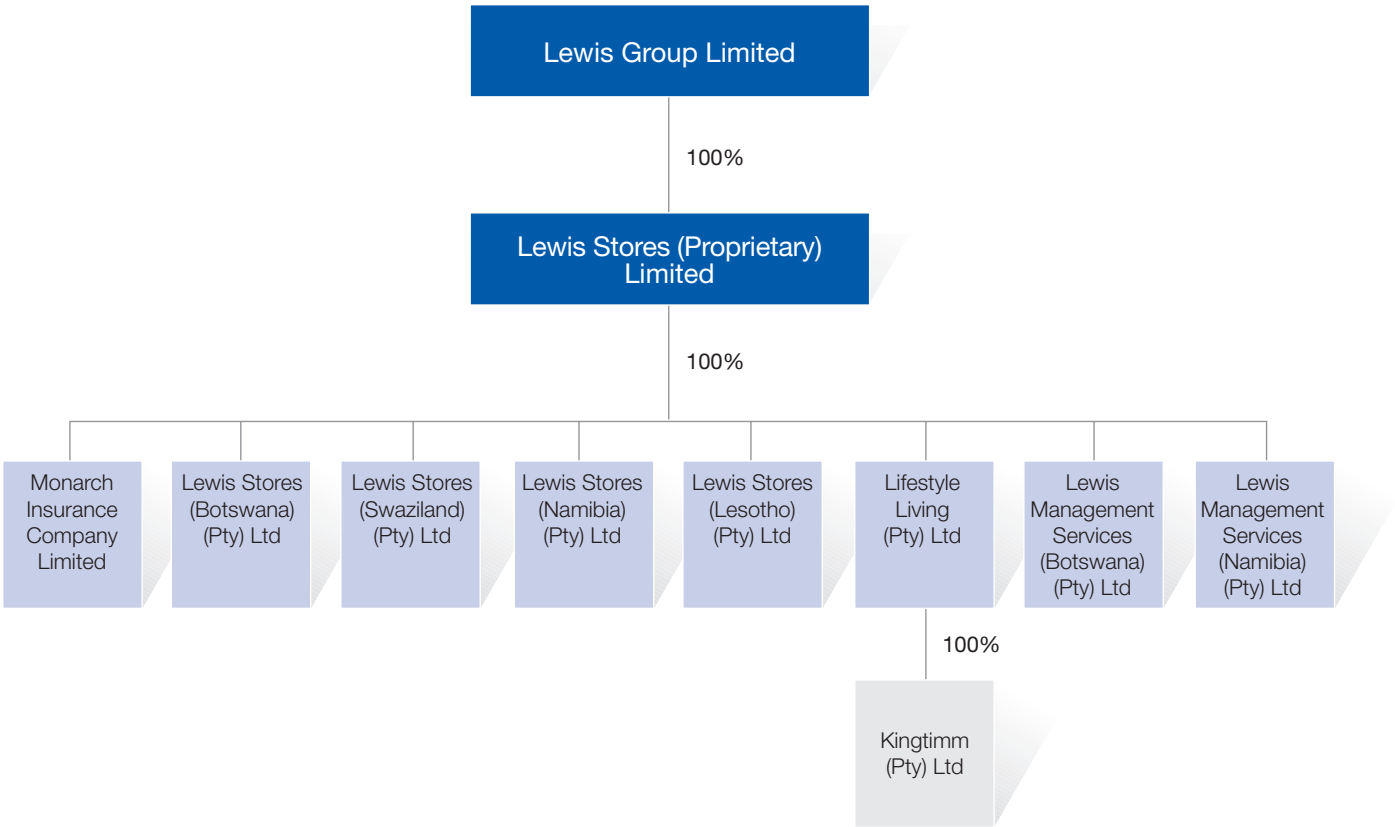
Brett van Aswegen has been involved in the retail credit industry in South Africa for ten years. Brett spent four years with the Edcon Group and then moved to The Standard Bank of South Africa Limited for a short period before joining the Lewis Group as the Group Credit Risk Manager in July 1999. In 2002, Brett was appointed General Manager: Credit Risk, specialising in scoring and strategic customer management.

Kenny van Aardt

Group Commercial Executive (44) – B.Com, B.Com (Hon), CA(SA)

Kenny van Aardt joined the Lewis Group in July 2003 as an executive director of Lewis Stores (Pty) Ltd. A qualified Chartered Accountant, Kenny has been involved in the South African and international fast moving consumer goods/retail industry for the past 15 years, in both executive financial and general management positions. His previous position before joining the Lewis Group was with Edcon. Kenny joined Edcon as Group Financial Director in July 2000, was appointed to the main Board in November 2000 and was appointed Chief Operating Officer in July 2002, which position he held until April 2003. Prior to working for Edcon he worked for RJR Nabisco Food Company (Pty) Ltd from 1995 to July 2000.

Lewis Group **Structure**



Chief Financial Officer's **Report**

Les Davies

The Group's performance over the past year was particularly pleasing.

It is encouraging to have delivered strong growth for shareholders in our first year as a listed entity. The favourable trading environment for the retail sector – along with enhanced operating efficiencies, improved operating margins and good cash flow generation, contributed to our excellent performance.

Operating profit increased by 16.6% to R589.7 million (2004 – R505.6 million). Operating margins over the past five years have been steadily increasing from 15.4% in 2001 to 23.5% in 2005. Operating profit per store, operating profit per square metre and operating profit per employee have similarly increased every year since 2001. Attributable profit and headline earnings increased by 42.3% and 40.6% respectively.

The net asset value has more than doubled from R698.1 million in 2001 to R2 059.4 million in 2005. In addition after tax return on capital employed increased from 12.5% in 2001 to 18.6% in 2005.

In line with the dividend policy of three times covered adopted by the Board, a final dividend of 74 cents per share is proposed and together with the interim dividend of 61 cents per share amounts to a total dividend for the year of 135 cents per share. This is a dividend yield of 4.8% when compared to the listing price of R28.

This report should be read in conjunction with the annual financial statements on pages 49 to 77.

Income statement analysis

Revenue comprising merchandise sales, finance charges, services and insurance premium income, grew by 10.4% to R2 511.5 million (2004 – R2 274.7 million).

Merchandise sales increased by 13.6% this year which compares favourably to last year considering the strong sales growth of last year. Sales growth in the second half of last year was particularly buoyant (27.6%). We experienced good growth in the value of furniture sales which grew by 18.5% with unit sales growth reflecting a 15.8% increase. Lower inflation together with volume growth improved operating margin in the furniture sector of the business.

The opposite was true in the electrical goods sector which includes appliances and audio-visual products. Price deflation placed margins under pressure with electrical sales value increasing by 10.1% and unit sales growing by 19.5%.

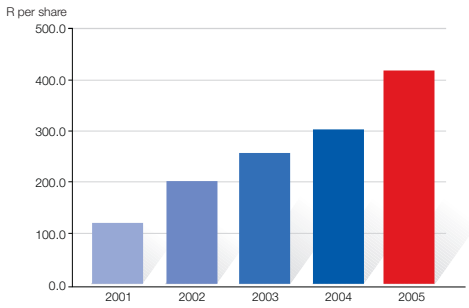
Cash sales increased to 25.1% of merchandise sales compared to 18.2% in the previous financial year. Higher cash sales can be ascribed to deflationary pricing in the electrical goods sector. The addition of Lifestyle Living has also impacted on the level of cash sales as a higher proportion of this brand's sales are for cash.

The lower gross profit margin of 58.2% (2004 – 59.6%) can be ascribed to a lower contribution from finance charges as a consequence of a reduction in interest rates and a higher proportion of cash sales. The merchandise margin of 32.9% reflects the effect of price deflation in the electrical goods category mentioned above.

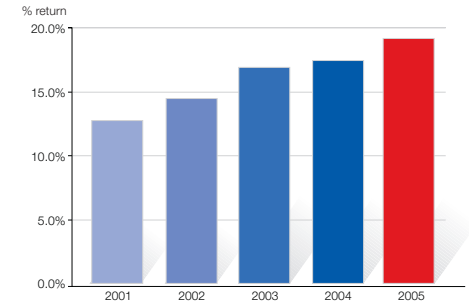
The debtors book and bad debts and impairment charge continued to reflect an improving trend with bad debts and impairment charge decreasing to 3.8% (2004 – 4.4%) of the gross debtors book. Our focus on collection procedures at store level together with established credit risk systems and the favourable credit environment, contributed favourably to this performance.

Expense management and the drive for efficiency remains a priority in the business. Employment costs at 16.3 % of revenue reflect higher commission earnings as a consequence of the improved trading environment. Occupancy costs at 3.6% of revenue reflect the benefit of high sales per square metre. Overall costs increased by 4.8% and include Lifestyle Living for a full year. The comparative year includes Lifestyle Living costs for six months. Excluding them, overall costs were flat on last year.

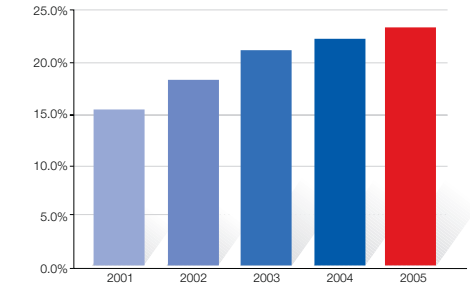
Headline Earnings



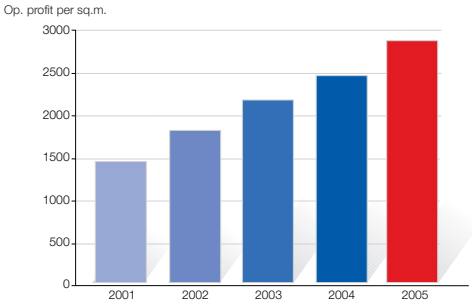
Return on Capital Employed (After-tax Return)



Operating Margin



Operating Profit per square metre



Investment income improved as a consequence of the higher market value of gilts held by Monarch Insurance Company, and accounted for in accordance with AC133. Currently, 66.1% (2004 – 67%) of Monarch's investments are held in interest-bearing instruments.

Net finance costs declined by R99 million as a result of the capital restructuring of the Group shortly before the listing and the good cash flow of this year. Prior to the restructuring, Lewis owed GUS Holdings BV R1 173.9 million. In July 2004 the loan and outstanding interest was repaid, with R376 million of the loan capitalised.

The Group's effective tax rate is currently 31% (2004 – 28%). We expect next year's tax rate to be at similar levels.

Balance sheet review

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

Cash and cash equivalents declined with the repayment of the loan due to GUS Holdings BV. Interest-bearing borrowings reduced due to the repayment of the loan in July 2004 by capitalising R376 million into share capital and settling the outstanding balance by way of cash resources and bank facilities raised in substitution. Good cash collections has seen short-term borrowings move from R328 million at the date of restructuring to R172 million. Gearing at the end of the year was 6.1% compared to 60.9% in 2004.

Inventory levels increased marginally. Stock turn improved to 5.7 times (2004 – 5.1 times). Inventory management systems are in the process of being upgraded and further improvements are anticipated in the coming year.

This year the growth in the debtors book has been negligible despite the increase in revenue, due to good collections and the lower interest rate component in debtors. The current favourable debt environment together with prudent credit policies adopted by the Group has resulted in a reduction of the impairment provision of R23.7 million. Other debtor accounting provisions increased as a result of business volumes written during the current year.

Deferred taxation reflects as a net asset. Lower debtor tax allowances in the current year together with the adoption of AC133 in 2004, in particular in the area of debtor impairment provision, account for this. The current taxation liability has increased as a result of lower debtor tax allowances.

Cash flow

The Group continued to generate strong cash flows which can be attributed to good collections and tight working capital management.

Cash retained from operations declined as a consequence of settling the interest due to GUS Holdings BV, increased tax payments and the first dividend paid as a listed Group.

The net cash outflow from financing activities can be attributed to the repayment of the loan to GUS Holdings BV.

Net short-term borrowings of R116.7 million are well below our facilities of R900 million. Our medium-term target for the gearing ratio is 20% to 35%.

Changes in equity

The capitalisation of R376 million of the GUS Holdings BV loan has caused the change in share capital. In accordance with AC133, the movements in the fair value of available for sale investments is reflected in shareholders' equity.

Segmental reporting

Revenue from merchandising grew by 10.9% with insurance revenue growing by 7.6%. The lower increase in insurance revenue results from the increasing proportion of statutory insurance reserves required when volumes increase.

On a geographical basis, 89.3% (2004 – 89.1%) of Group revenue is generated within South Africa. The balance can be attributable to Botswana, Lesotho, Namibia and Swaziland (BLNS). Store expansion has mainly been in South Africa with 19 new stores opened this year.

Detailed segmental analysis of the Best Electric and Lifestyle Living divisions have not been provided as these divisions do not currently contribute significantly towards the Group's revenue and operating profit.

Accounting policies

There has been no change in accounting policy except for the following:

> Previously recognised negative goodwill has been treated in accordance with the transitional provisions of AC140 and derecognised to retained income on 1 April 2004. This change has had an insignificant impact on the reported profit for the year.
>
> In accordance with the requirements of the JSE Securities Exchange, the various management and employee share trusts have been consolidated. There has been no dilution of earnings resulting from this consolidation as GUS Holdings BV provide the shares and options to be awarded by the trust.

Lewis Group Limited will be required to prepare financial statements in accordance with International Accounting Statements for the year ending 31 March 2006, full details of which will be made available with the interim results in September 2005.

The year ahead

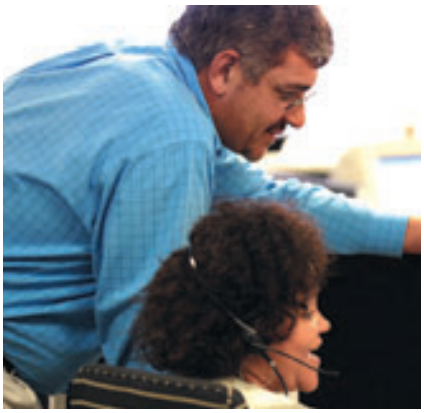
The Board and management as in the past have formalised detailed financial objectives for the 2006 financial year and will monitor progress against these targets.

There are several challenges for the new year, in particular identifying new business opportunities beyond organic growth and the introduction of the National Credit Bill. I am confident that the Company is well positioned to manage these challenges successfully.

Closing

My thanks to the finance team for their support and loyalty throughout a challenging year, in particular during the run-up to the listing.

LES DAVIES
Chief Financial Officer



Divisional **Reports**
Merchandising

Chris Heiberg
Group Merchandise and Marketing Executive

Derek Loudon
General Manager Merchandise

Ivan King
Merchandising Executive Lifestyle Division

Supported by five merchandisers and a logistics manager

Merchandising is core to the Group's success. We strive to create a product range that is uniquely Lewis and away from the "sameness" that pervades the industry, providing customers with *choice* and *convenience*.

Furniture accounts for 49% of the merchandise, with electrical appliances, audio-visual products and housewares making up the remaining 51%.

A key driver of the merchandising strategy is the strong strategic relationship forged with suppliers. This affords the opportunity to influence design, obtain exclusivity and generally enjoy good margins.

Products are sourced from a wide range of suppliers, with no single manufacturer producing more than 10% of the total purchases.

The supplier partnership strategy extends also to electrical categories where exclusive products are sourced from strong brand players.

In September 2004 the Professional Management Review (PMR) awarded Lewis the PMR Diamond Award as the highest rated retail group, based on a survey by manufacturers and suppliers of electronic and white appliances throughout South Africa.

Imports were positively impacted by the strengthening of the Rand over the past year, which saw the average exchange rate for the financial year improve from R7.06/$ in 2004 to R6.27/$ in 2005.

Products are sourced internationally – mainly from the Far East, Korea and Malaysia – to ensure exclusivity, product differentiation and higher margin. Strong relationships with local agents are key to the success of the import programme. It is necessary to maintain a balance between local and imported products for effective exchange rate risk management and supplier diversification.

The merchandise team has extensive knowledge of the retail furniture and appliance market and keeps abreast of customer needs through surveys and research, ensuring that new product ranges are aligned with market needs.

Merchandisers visit local and international factories and suppliers, as well as international trade fairs, on a regular basis. The Group has an inclusive approach to selecting new ranges and the merchandise team involves senior executives at head office as well as operational management in the process to ensure that new products are accurately targeted to different regions.

Merchandise is delivered directly by the supplier to stores which increases efficiency and reduces the need for distribution centres or warehouses. The management of the supply chain, combined with the merchandising system, leads to optimal low stock levels and rapid delivery times to customers. Stores handle their own deliveries to customers, with an estimated 90% of deliveries being made within 24 hours of the purchase.

Total stock holding at year-end was R160.1 million. An ongoing programme to reduce the level of slow-moving stock in the stores is a fundamental operational procedure. Stock turn has improved from 5.1 to 5.7.

Divisional **Reports**
Marketing

Chris Heiberg
Group Merchandise and Marketing Executive

Alan Solomon
General Manager Marketing

The Group's marketing strategy is focused on retaining the loyalty of the existing customer base of over 800 000 people, building brand awareness amongst the target market and attracting new business to grow market share. The objectives of the marketing programme are realised through customer loyalty programmes, extensive media advertising and in-store promotions.

Customer loyalty: Re-serve scheme

In the year under review 61% (2004 – 61%) of sales were generated from existing customers. This can be attributed to the success of the "re-serve scheme" that identifies the suitability of customers for further credit offers based on their payment behaviour and current indebtedness to the Group.

A payment rating system based on past performance and behavioural scoring provides a predictive indicator on a customer's future creditworthiness. This allows for targeted marketing and credit offers. Once the scheme identifies these "re-servable" customers, advertising and promotions are used to encourage further purchases. The scheme is fully integrated with the debtors system and store operations, enabling customer segmentation.

Advertising

Advertising is merchandise driven and is targeted at both existing and new customers. The majority of the advertising budget is allocated to brochures and television which is supported by in-store promotions highlighting current campaigns. In addition, newspaper and magazine advertising is used to attract new business. Lewis also utilises sophisticated personalised direct marketing campaigns. These focus on existing and settled customers as well as new databases. All marketing databases are cross-matched to reach the ideal target market whose profile provide the greatest response.

Brand awareness of Lewis has increased strongly in recent years. Independent industry research by *Adtrack* shows that brand awareness of Lewis grew from 43% in November 2001 to 70% in September 2002 following the introduction and creative positioning of the slogan, *Lewis – We are family*. In 2003 brand awareness rose to 75% and has remained at this level in 2004, well above the industry norm.

The *Markinor* report of 2004, published in the *Sunday Times*, showed Lewis has accelerated into second place in terms of weighted brand awareness among furniture retailers. The brand relationship enjoyed by Lewis also improved from fourth to second place, as did the customer loyalty factor.

An in-house advertising studio has all the expertise to plan, design and produce every aspect of the marketing media mix from brochures and point-of-sale to press advertising and television. The focus of an in-house advertising studio ensures the most cost-effective production and the fastest possible distribution of advertising material to the Group's stores.

Promotions

Customer relationship building forms an integral part of the promotional strategy at store level. The broad network of stores and their locations enables the Company to be involved with the communities it serves and allows store management to develop relationships with customers through extensive in-store promotions, product demonstrations and functions.

The Lewis Club

The Lewis Club is a customer *loyalty* programme. Membership is free and automatic to any customer taking out insurance when opening an account.

Members of the Lewis Club receive a monthly magazine produced by New Highway Publishing, a division of the Group.

The editorial content of the magazine focuses on general interest, topical and popular lifestyle issues as well as including special offers, discount coupons and monthly competitions. Club members can apply for educational bursaries worth more than R2 million and have free access to 24-hour legal, medical and HIV advice lines.

As custom publishers, New Highway also produces the Foschini Club magazine.

The Lewis and Foschini Club magazines are circulated to over 1.2 million customers each month, with actual readership based on AMPS 2004 closer to two million. This extensive readership of the magazines presents advertisers with an opportunity to reach a highly targeted audience.

Divisional **Reports**

Credit

John Young
General Manager
Credit Operation

Brett van Aswegen
General Manager
Credit Risk

Supported by eleven divisional credit managers

Credit is one of the cornerstones of the Lewis business model. Credit-based sales account for 75% of revenue and consequently one of the key risks facing the Group is the granting and management of credit.

The Company operates a centralised credit function covering credit risk scoring, credit approval, underwriting, fraud prevention and customer account management.

Summary of Credit Performance	2005	2004
Gross debtors book (Rm)	**2 677.1**	2 630.4
Impairment provision (Rm)	**385.4**	409.1
% of gross debtors book	**14.4%**	15.6%
Bad debts and impairment provision (Rm):		
Total	**101.6**	115.1
% of Gross Debtors	**3.8%**	4.4%
Arrears % total:		
Contractual	**27.3%**	28.9%
Average length of book (months)	**14.8**	15.4
Credit application decline rate	**20.5%**	22.3%

The Group's total contractual arrears is calculated as all arrear amounts as a percentage of the outstanding balance.

Credit risk management

The Company applies one of the retail industry's most refined technology-based credit scoring systems to determine the credit risk of applicants. Credit scorecards were introduced in 1998 and these are regularly adjusted to take account of changing customer behaviour and progress in credit risk management. A third generation scorecard is currently in use.

During the past year, an average of more than 31 000 new credit applications were processed per month. These applications are transmitted by the stores via the VSAT Satellite Network to the *Transact* credit processing system which is the engine room for account applications. *Transact* interfaces with several databases including the credit risk scorecard, client payment history and the national loans registry before requesting information from independent credit bureaus. Transact also interacts with the Hunter fraud detection system. Lewis has a track record of low fraud rates.

The score assigned to an applicant is then used together with the applicant's income to calculate an initial credit limit for the new customer. This credit approval process takes between eight and 15 seconds to complete, with the average processing time in 2005 being nine seconds. This allows for an immediate response to the customer in the store.

The scorecard decision may be appealed by the store manager to the referrals department at head office in conjunction with divisional and regional staff. The interaction between the store manager and the customer is vital in the credit granting process.

In the past year, 20.5% (2004 – 22.3%) of new credit applications were declined.

Behavioural scorecards were introduced for existing customers in January 2005 and it is anticipated that these risk evaluation techniques will increase the pool of re-servable business and reduce credit risk levels.

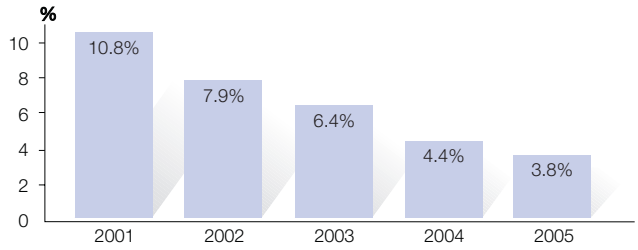
Second generation credit application scorecards were developed and implemented for Best Electric and the foreign branches in November 2004.

Lifestyle Living's credit operation was also successfully integrated into the Lewis credit environment.

A payment rating system, measuring payment performance over the lifetime of the account as well as the payment performance over the last three months, is used to manage customer credit.

This enables Lewis to offer an "open to buy" (OTB) facility to customers which assists store sales staff in selling more effectively.

Decline in Bad Debts



Credit collection

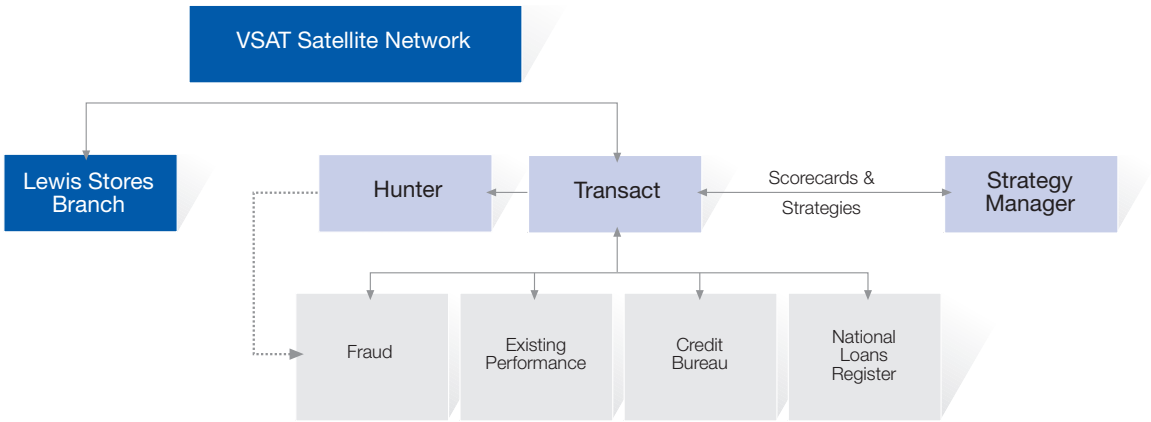
The success of the Lewis Group's credit collection process can be attributed to the decentralised nature of the operation, with stores being responsible for the cash collection and follow-up of their defaulting customers.

The declining bad debt trend of the past few years has continued, with bad debts and impairment charge reducing by 11.7% during 2005 to R101.6 million. This improvement can be ascribed to the favourable macroeconomic environment prevailing in South Africa combined with sophisticated credit granting criteria and effective follow-up.

The performance of each debtors clerk's book is monitored and these clerks are incentivised to meet monthly and quarterly targets.

Regional account managers support the store collection operation and report through to a divisional credit manager.

Superior Credit Approval Process



Divisional **Reports**
Operations

Johan Enslin
General Manager
Operations

André Strydom
General Manager
Best Electric

Neil Timm
Operations Executive
Lifestyle

Supported by eleven divisional general managers

The Group's operating structure has been formulated to support all key strengths and attributes of the business model – *convenience, choice, credit, loyalty, customer focus* and *operational efficiency*. The divisional operations are divided according to target markets: Lewis and Best Electric serve customers in the LSM 4 – 7 groups while Lifestyle Living is aimed at LSM 8 – 10 groups.

Lewis Stores	**2005**	**2004**
Revenue (Rm) [1]	**2 223.8**	2 060.9
Revenue growth (%)	**7.9%**	7.9%
Merchandise sales growth (%)	**10.6%**	12.3%
Comparable store merchandise sales growth (%)	**10.0%**	11.7%
Number of stores	**400**	400
Total trading space (m^2)	**191 348**	190 737
Annual revenue per m^2 (R'000)	**11.6**	10.8
Credit sales (%)	**76.8%**	83.1%

[1] includes insurance premiums written

Lewis sells a wide range of household furniture and electrical appliances, primarily to the LSM 4 – 7 consumer category. Lewis is the single largest furniture brand in South Africa with 400 stores. This enables significant economies of scale to be achieved in marketing and other costs as well as merchandise procurement.

Best Electric	2005	2004
Revenue (Rm) [1]	**225.9**	178.6
Revenue growth (%)	**26.5%**	39.6%
Merchandise sales growth (%)	**26.2%**	31.2%
Comparable store merchandise sales growth (%)	**11.5%**	28.8%
Number of stores	**58**	47
Total trading space (m^2)	**9 263**	8 108
Increase in total trading space (%)	**14.2%**	8.1%
Annual revenue per m^2 (R'000)	**24.4**	22.0
Credit sales (%)	**72.0%**	75.4%

[1] includes insurance premiums written

Best Electric is a specialist electrical appliance and audio-visual retail chain targeting consumers in the LSM 4 – 7 groups. Started in 1998, the store base has grown to 58 by year-end. The Best Electric concept is based on small stores with an average size of 160 m^2 situated in high traffic areas with high trading densities.

The extensive footprint of 458 stores countrywide for Lewis and Best Electric requires a highly efficient operational structure to support the branch network. This structure includes over 5 000 people from sales staff, to branch, regional and divisional management.

A unique feature of the structure is that store managers are accountable for the entire operation of their branches and are empowered to make decisions which will impact on the performance of their branches. They are responsible for both sales and credit collection in the branch, which ensures a balanced approach to these two disciplines.

The Group has instilled an entrepreneurial culture within stores so managers are effectively the heads of their own businesses. Remuneration has been structured to reflect this philosophy, with managers receiving a basic salary and incentives based on their sales, credit collection and profit performance.

Sales staff's remuneration is largely commission based with additional incentives set for maximum performance.

There are 11 Divisional General Managers who are responsible for all aspects of store operations. Each Divisional General Manager has five or six regional controllers reporting to him, with each regional controller being responsible for six to eight stores. The Divisional General Managers report to the General Manager: Operations. The Divisional General Managers have an average of 18 years service, and therefore have a thorough understanding of the Lewis trading environment.

Key to the success of the branch operations is the integrated working relationship with the merchandising and marketing departments, the co-operation with the human resources department to ensure effective recruitment and training practices and the constant liaison with the information technology department on the systems front.

Lifestyle Living	2005
Revenue (Rm) [1]	61.8
Number of stores	17
Total trading space (m^2)	6 984
Annual revenue per m^2 (R'000)	8.8
Credit sales (%)	39.3%

[1] includes insurance premiums written

Note: no comparatives since Lifestyle Living was only acquired in October 2003.

Lifestyle Living was acquired in October 2003 and serves the LSM 8 – 10 market. The integration of niche furniture retailer Lifestyle Living into the Group was succcessfully completed during the year, with all financial, credit and human resources systems being merged onto the Lewis platform.

Although still relatively small in the Lewis Group, the brand is positioned to benefit from the Group's systems capability, reduced costs from economies of scale, logistics capacity and the availability of capital for store expansion. Merchandising has been retained as a separate function to ensure that the Lifestyle Living brand retains its own identity. However, there is a close working relationship with the Group's merchandising and marketing team to extract cost efficiencies where possible.

The store location strategy has been adapted to the revised business model. The new format, mall-based stores opened during the year are performing well.

Insurance

Monarch Insurance Company Limited has a restricted short-term insurance licence and is registered with the Financial Services Board.

Monarch Insurance provides insurance products to credit customers of the Group.

The basic insurance package covers death, permanent disability, retrenchment and the replacement of the goods in the event of accidental loss, fire, theft or disaster.

The Monarch Insurance Board consists of three executives of the Lewis Group, namely Alan Smart, Les Davies and Kenny van Aardt, and two non-executive directors, Robert Shaw and Ray Sanger. The non-executive directors have over 70 years collective experience in the short-term insurance and reinsurance industries.

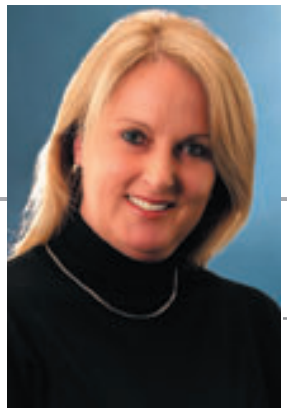
By utilising the Group infrastructure to sell the insurance products, collect premiums and administer claims, significant economies of scale exist for the Group.

The investment portfolio of Monarch Insurance is managed by Sanlam Investment Management (SIM). The asset allocation and investment strategy is determined by the Boards of Lewis and Monarch Insurance in consultation with SIM.

In terms of compliance with the Short-term Insurance Act, Monarch Insurance is required by legislation to establish certain reserves to meet future obligations and these funds may only be invested in specific asset classes. In addition, the investment strategy adopted by Monarch Insurance restricts higher risk investments.

Monarch Insurance reinsures 40% of its insurance risk with Constantia Insurance Company Limited.

Monarch Insurance is licensed to operate in South Africa and the Group has negotiated arrangements with third-party insurance partners in the neighbouring countries of Botswana, Lesotho, Namibia and Swaziland which makes it possible to offer customers in these territories similar insurance products.



Sharon Röhm
Manager Customer Service

Customer service

Customer service is not only a department, but importantly, it is a philosophy within the Lewis Group which is entrenched in the business model.

The management team is committed to customer service and satisfaction and demand the same level of commitment from staff. The high customer loyalty and level of repeat sales indicates that customers are satisfied with the Lewis experience.

A wide range of stringent methods are applied by the service excellence team to assess customer service standards across the entire Group.

"Mystery shoppers" visit all stores twice a year, with an external research house contracted to assess issues such as the professionalism and presentation of the sales staff, the level of interest in the customer's requirements, product knowledge, the merchandise range and display and a general overview of the visit to the store.

Mystery telephone calling to all stores is performed on a regular basis to determine the level of professionalism, product knowledge and telephonic sales skills of the staff.

Regular surveys are conducted randomly to evaluate the purchasing experience of new customers. Responses show that on average 93% of customers are satisfied with the point-of-sale service and the delivery of goods.

Other techniques applied in assessing customer service are random telephonic surveys, mailings to customers throughout the lifecycle of their account to establish levels of customer satisfaction, customer focus groups as well as qualitative and quantitative market research among customers and potential customers.

A service excellence campaign has been running for many years and is designed to motivate and reward all employees for outstanding customer service. Employees are nominated based on feedback from customers, positive reports from mystery shopping or by senior management for consistent customer service. Nominated staff members are appointed to the Service Excellence Club. Awards are presented to all new members who qualify for attractive incentives.

A call centre at head office handles all customer communications. Customers are encouraged to use the toll-free facility which is advertised both in stores and on customer account statements.

Fleet management

Convenience is one of the strengths of the Group's business model and this is reflected in the timeous delivery of merchandise to customers, with about 90% of deliveries being made within 24 hours of purchase.

In order to create *operational efficiency*, the Group runs its own fleet of over 900 vehicles which supports the national store network, with each store having dedicated vehicles.

Fleet management and replacement is centrally controlled at head office. New vehicles are purchased from a black economic empowerment (BEE) vehicle dealership.

The fleet maintenance and administration is outsourced to Imperial Fleet Rental which allows the Group to maximise fleet efficiencies and manage costs.

Divisional **Reports**
Human Resources

Jan Horn
General Manager
Human Resources

Supported by eleven divisional personnel managers

The primary focus of the human resources department is on the recruitment, training and development needs of the staff nationally, maintaining a stable relationship with the representative trade unions and facilitating transformation.

The Company is committed to a sustainable transformation programme aimed at changing the employee profile to reflect the gender and racial demographics of the customer base and the country.

The policy is to favour previously disadvantaged individuals for new positions, and during the year black staff accounted for 69% of new appointments. The total staff complement for the Group has remained relatively static at 5 870 (2004 – 5 776).

On the industrial relations front, relations with staff and the organised labour movement continue to be favourable and no industrial action was experienced during the year. In 2005 staff membership of the recognised trade union, the South African Commercial Catering and Allied Workers Union (SACCAWU) stood at 44% for the bargaining category. A new two-year wage agreement is due to be negotiated in July 2005.

In line with the Company's commitment to training and development, 1 974 employees attended training courses during the year, including 1 468 previously disadvantaged staff. All job categories in the branch and regional operations have a specific training course and induction programme.

During the year a technology-based development programme was introduced for branch managers and a product knowledge training course developed for sales staff on the Lewis Communication System, the Group-wide intranet system.

The training and recruitment functions are managed on a decentralised basis, with 11 Divisional Personnel Managers providing a support service to the operations.

The Group operates an educational bursary scheme which assists employees in furthering their studies, as well as providing funding for employees' children for tertiary and secondary school education.

During the year 80 employees were registered for correspondence courses with the University of South Africa (UNISA) covering customer relationship, marketing and sales management.

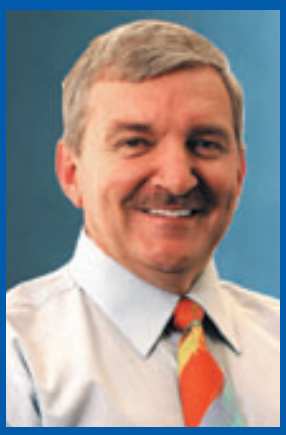
HIV/AIDS education is integrated into the overall training programme and an information brochure, *Living with AIDS*, was compiled to enlighten employees about managing the disease in the workplace.

The role of the human resources department in managing the Group's corporate social investment portfolio is outlined in the Corporate Governance Report.

Divisional **Reports**

Corporate Services

Kenny van Aardt
Group Commercial Executive



Charles Irwin
Group IT Executive

Ferdi Lamprecht
Group Property and Development Executive

Underpinning the successful operation of the Group is a shared services platform which supports the commitment to continually improve *operational efficiency*. This covers the strategic disciplines of credit risk management, finance, information technology, business development, investor relations and property.

The past year has been particularly active across all of these areas:

- Outstanding credit risk management enhanced the quality of the debtors book, while the introduction of industry first behavioural scorecards will sustain the customer re-serve base at its current high level of 61% (2004 – 61%).
- The IPO and listing of the Group in October 2004 involved extensive preparation of the prospectus, roadshows to potential investors locally and abroad and managing the transition to a listed environment.
- This was all managed within extremely tight deadlines. At the same time, the finance division was restructured to gear the Group for more intensive corporate reporting.
- While managing the portfolio of 62 properties owned by the Group and the leases on over 400 buildings, the property and development team opened 19 new stores and relocated six.
- The prudent investment in information technology in recent years continues to pay dividends, with an effective balance between centralised head office systems and decentralised systems in stores. Lifestyle Living's systems were successfully integrated in August. The VSAT satellite network ensures that credit applications are approved within eight to 15 seconds, handling over 350 000 applications during the year.

Information technology

After making a substantial financial investment and outsourcing key functions over the past five years to create a leading-edge technology platform which provides *convenience* and enhances *operational efficiency*, the Group's systems are stable, current, low cost and scaleable. As a result no major information technology (IT) projects or expenditure are planned for the year ahead.

The Lewis technology strategy is underpinned by five key principles, notably:

- providing cost effective, timely and accurate information systems;
- responding rapidly to the changing needs of the business;
- partnering specialists through outsourcing or insourcing to add business value to the Group;
- adhering to open systems principles; and
- using industry standard, non-proprietary hardware, and as far as possible, software.

In addition to the small in-house strategy and management team responsible for the Group's systems, the maintenance of the software portfolio is outsourced to a team of systems developers from Universal Computer Services (UCS). Maintenance of the branch IT network is outsourced to Unisys and open source Linux software is used at store level. A perpetual upgrade programme ensures that store technology remains current.

The Lewis Communication System (LCS) is an intranet-based system which provides effective communications between the branch network and the head office. Central to LCS is an online product knowledge training facility which tests the product knowledge of store staff. The system is used for store promotions, operational updates, price ticketing and for the archiving of documents, and provides a valuable feedback mechanism from stores to head office.

Transact, an automated credit application processing system, facilitates the application of centralised credit policies and credit scorecards, as well as enabling online bureau enquiries. While the Group uses the international expertise of Experian in the development and maintenance of risk scorecards and credit strategies, it also maintains the required experience and technical skills internally to maintain, adapt and improve the application of the credit management system.

A distributed network enables branches to operate independently of each other and head office. However, the approval process for new credit applications requires real-time connectivity to the credit bureau, which is facilitated through *Transact*.

In order to prevent downtime, an off-site disaster recovery server is maintained. This disaster recovery site connects to the branch satellite network infrastructure and the credit bureau independently of the live operating environment. The entire Transact system is replicated at the disaster recovery site on a daily basis and can be activated within minutes of a disaster.

A business continuity plan ensures that customer communications (eg account details), supplier communications (supply chain processes) and staff communications (payment processes) are maintained.

Group property and development

The Group property and development team is responsible for the administration of the property portfolio, negotiating lease renewals, sourcing sites for store expansion, managing store openings and refurbishments, co-ordinating store security and handling overall lease administration.

The Company's preferred policy is to lease premises (currently more than 400 properties), allowing it far greater flexibility when locating stores in optimal positions. Furthermore, centralised property procurement drives cost efficiencies.

The Group's store location strategy is key to its success. Lewis has traditionally traded out of stand-alone stores located in main streets and town centres with some representation in shopping centres. Best Electric stores are ideally suited for shopping centres with higher footfall, while the new format Lifestyle Living stores are located in upmarket urban shopping centres frequented by higher income earners.

Investor relations

The Lewis Group has adapted to the challenges of operating in a listed company environment, with the additional statutory and financial reporting, as well as greater regulatory and legislative compliance.

Following the listing of the Group in October 2004, an investor relations policy was adopted. This not only commits the Group to providing accurate, transparent and regular communications to the investment community, but also ensures that information is made available to all shareholders simultaneously in accordance with regulatory guidelines.

In all shareholder communications, the Group aims to present a balanced and understandable assessment of Lewis' position. This is done by adhering to principles of openness and substance over form and striving to address material matters of interest and concern to all stakeholders.

The Group has an appointed sponsor, UBS South Africa, in compliance with the JSE Securities Exchange of South Africa (JSE) Listings Requirements.

Corporate **Governance**

The directors endorse the principles of effective corporate governance and accept responsibility for ensuring that it is consistently practised throughout the Group. In discharging this responsibility, the Board has taken steps to ensure that the Company complies in all material respects with the requirements of the Code of Corporate Practices and Conduct as set out in the second King Report on Corporate Governance (King II). The Company's approach to corporate governance is stakeholder inclusive, underpinned by effective communication and integrated into every aspect of the business.

Chairman and Chief Executive Officer

The Board is chaired by David Nurek, an independent non-executive director. The Chairman is responsible for providing leadership to the Board, overseeing its efficient operation and ensuring effective corporate governance.

The Chief Executive Officer, Alan Smart, is responsible for formulating, implementing and maintaining strategic direction, as well as ensuring that the day-to-day affairs are appropriately supervised and controlled.

Board

The Board comprises one executive director and four non-executive directors. Three of the non-executive directors are independent. The remaining non-executive director, David Tyler, is an executive of GUS plc, the majority shareholder. Biographical details on the directors appear on pages 6 to 7.

In terms of its charter, the Board's responsibilities include the following:

- adoption of strategic plans;
- monitoring operational performance and management;
- ensuring effective risk management and internal control;
- overseeing director selection, orientation and evaluation;
- approving significant accounting policies;
- ensuring effective regulatory compliance;
- assessing the sustainability of the Group as a going concern;
- approving the annual and interim financial statements; and
- ensuring balanced and understandable communication to stakeholders.

The Board has defined levels of materiality recorded in a written delegation of authority, setting out decisions it wishes to reserve for itself.

The directors do not have fixed terms of appointment and all directors are subject to retirement by rotation and re-election by shareholders at least every three years.

Directors are selected to serve on the Board, based on their knowledge, experience, credibility, the contribution they can make and attention they can devote to the role.

Board meetings

The Board meets four times a year, while additional meetings will be convened when necessary.

Meetings are conducted in accordance with formal agendas, ensuring that all substantive matters are properly addressed. Any director may request additional items to be included on the agenda.

Non-executive directors bring an independent view and enjoy significant influence at the meetings. In addition, there is ongoing communication between the executive and non-executive directors outside of the formal meetings.

The directors have unrestricted access to information and management and may seek independent professional advice at the Group's expense, after consultation with the Chairman.

A summary of the attendance at Board and committee meetings is set out on page 39.

Board committees

The responsibilities delegated to the Audit and Risk Committee and the Remuneration and Nomination Committee have been documented in the terms of reference for each committee and approved by the Board. The effectiveness of the committees will be reviewed annually by the Board.

Audit and Risk Committee

The committee consists of three non-executive directors, two of whom are independent: Hilton Saven (Chairman), David Nurek and David Tyler. The directors are financially literate and suitably qualified to perform their role.

The committee meets four times a year and is responsible for:

- Approving the internal audit plan and reviewing the activities and findings of the department. Evaluating the performance of the internal audit function.
- Reviewing the audit plan of the external auditors, providing guidance as to the extent of services other than audit to be provided. Considering the independence and objectivity of the external auditors. Considering significant differences of opinion between management and external auditors.
- Considering the adequacy of internal control and risk management.
- Ensuring compliance with regulatory requirements.
- Assess the sustainability of the Group in terms of economic, environmental and social considerations.
- Reviewing the financial reporting systems, evaluating and approving accounting policies and the financial information issued to the stakeholders in terms of Generally Accepted Accounting Practice.

The committee has appointed a risk working group to assist with identifying, evaluating and managing significant risks faced by the Group. The risk working group meets biannually and consists of the heads of finance, human resources, information technology, store and credit operations, credit risk management, internal audit, marketing, merchandising, property management and is chaired by the Chief Executive Officer.

The risk working group was formed and tasked with the following:

- The identification and evaluation of actual and potential significant risks.
- The formulation of a response to the risk.
- Allocating responsibility for managing the risk.
- Subsequent monitoring.

Internal control and risk management

The Group's internal controls and systems are designed to provide reasonable, but not absolute assurance as to the integrity and reliability of the financial statements, to safeguard and maintain accountability of its assets, to minimise fraud, loss and material misstatements and to ensure compliance in all material respects with applicable laws and regulations.

The systems of internal control are based on established organisational structures, written policies and procedures and includes the preparation of budgets and forecasts and the subsequent comparison of actual results to these budgets and forecasts. These systems and procedures are implemented, maintained and monitored by appropriately trained personnel with suitable segregation of authority, duties and reporting lines and by the comprehensive use of computer technology.

The effectiveness of the systems of internal control is monitored by the senior executives, general managers and the internal auditors. These reviews indicate that the systems of internal control are appropriate and satisfactory and in addition, no material loss, or misstatement arising from a material breakdown in the functioning of the systems has occurred. The Board is of the view that current controls are adequate and effective

to mitigate, to an acceptable level, the significant risks faced by the Group.

Internal audit

The internal audit department reports to the Audit and Risk Committee and has direct access to the Chairman of the Board and the Audit and Risk Committee. For day-to-day matters it reports to the Chief Financial Officer.

It provides assurance that management processes are adequate to identify and monitor significant foreseeable risks. It monitors the effective operation of the established internal control systems and is responsible for establishing credible processes for feedback on risk management to the Board.

The internal audit department's charter has been approved by the Audit and Risk Committee and is consistent with the Institute of Internal Auditors' requirements for internal auditing. The audit coverage plan is reviewed annually and all significant findings and recommendations are reported to executive management and the Audit and Risk Committee.

The internal audit department co-ordinates with the external auditors, as far as practicably possible, to ensure proper coverage of financial, operational and compliance controls and to minimise duplication of effort.

External auditors

The external auditors provide an independent assessment of the annual financial statements and express an opinion on the fair presentation of the financial disclosures.

The external auditors have access to the Audit and Risk Committee.

The audit plan prepared by the external auditors is reviewed by the Audit and Risk Committee to ensure that all significant areas are covered, without infringing on the external auditors' independence and right to audit.

The external auditors report to the Audit and Risk Committee and executive management their audit findings. The committee ensures that the matters identified and significant differences of opinion between management and the external auditors are considered.

Remuneration and Nomination Committee

The committee consists of three independent non-executive directors: David Nurek (Chairman), Hilton Saven and Ben van der Ross.

The committee meets twice a year and is responsible for the following:

- Developing a remuneration philosophy.
- Ensuring senior executives are fairly rewarded.
- Succession planning.
- Ensuring the Board has the required mix of skills, experience and other qualities to effectively manage the Group.
- Identifying and nominating candidates to fill Board vacancies.

Before nominating individuals, appropriate background checks are performed. Newly-appointed directors are taken through an induction programme outlining their fiduciary responsibilities and the necessary Company and industry-specific background information.

Details of the directors' remuneration are set out below:

Name	Director fees	Basic salary	Bonuses and other performance-related payments	Other material benefits	Contributions to pension schemes	Medical aid contributions	Share options	Total
DM Nurek (*) (†)	160 000	–	–	–	–	–	–	160 000
AJ Smart	–	1 536 000	1 436 000	114 048	245 760	30 939	–	3 362 747
H Saven (*) (†)	128 000	–	–	–	–	–	–	128 000
D Tyler (*)	97 000	–	–	–	–	–	–	97 000
B van der Ross (*) (†)	89 000	–	–	–	–	–	–	89 000

(*) Non-executive directors (†) Independent

Executive Committee

The Executive Committee is chaired by the Chief Executive Officer, Alan Smart, and consists of 14 senior members of the executive team. The committee meets quarterly and is responsible for assisting the Chief Executive Officer in the management of the Group. The committee is responsible for the performance of the Group and is responsible for making policy proposals to the Board for consideration and adoption.

Company secretary

The company secretary acts as adviser to the Board and plays a pivotal role in ensuring compliance with statutory regulations and the Code, the induction of new directors, tabling information on relevant regulatory and legislative changes, and giving guidance to the directors regarding their duties and responsibilities. The directors have unlimited access to the advice and services of the company secretary.

The appointment and removal of the company secretary is a matter for the Board.

Behavioural code

The Group is committed to a culture of the highest levels of professionalism and integrity in its business dealings with stakeholders. The behavioural code sets out standards of honesty, integrity and mutual respect. Employees are expected to act within this code at all times.

A corporate fraud policy has also been implemented which sets out the responsibility of the staff and management towards the detection and prevention of fraud.

An anonymous process is available to all employees to report suspected incidents for investigation. Employees are guaranteed confidentiality and protection from victimisation for reporting such incidences.

Stakeholder communication

In all communications with stakeholders, the Board aims to present a balanced and understandable assessment of the Group's position. This is done through adhering to principles of openness and substance over form and striving to address material matters of significant interest and concern to all stakeholders. Proactive communication is maintained with institutional share owners and investment analysts. The Board encourages shareholder attendance at general meetings and will provide understandable explanations of the effects of resolutions to be proposed.

Share dealing

The Board has implemented an insider trading policy. During closed periods, the directors, officers and defined employees may not deal in the shares of Lewis.

Directors are required to obtain written clearance from the Chairman before dealing. If the Chairman wishes to deal, he is required to obtain written permission from the chairman of the audit and risk committee.

A register of share dealings by directors is maintained by the company secretary and reviewed by the Board.

Conflict of interest

Directors or senior executives, once aware of any conflict of interest, are required to disclose such immediately and are precluded from voting at meetings on conflicting matters.

	Board	Audit and risk committee	Remuneration and nomination committee
Number of meetings	3	2	1
Directors			
DM Nurek	3	2	1
AJ Smart	3	nr	nr
H Saven	3	2	1
DA Tyler	3	2	nr
B van der Ross	3	nr	1

nr = not required

The first Board meeting of Lewis Group Limited as constituted above was held on 6 September 2004.

SUSTAINABILITY REPORT

We are committed to developing and reporting on our activities for sustainable development. Striving for economic prosperity and growth, yet encouraging environmental and social progress.

Environment

The Group recognises that its activities have an impact on the environment. We have adopted a strategy that strives to minimise this impact by regularly reviewing the activities and compliance with relevant legislation.

The activities undertaken include the following:

- Usage of electricity and water are monitored and where appropriate, steps are taken to reduce consumption. A number of electrical saving devices are being tested in selected branches and if significant savings are achieved, these devices will be extended to the rest of the Group.
- Wastage disposal companies are contracted to recycle the Group's wastage, which relates mainly to consumables such as stationery and paper.
- There is a focus on the optimisation of fuel and oil consumption by ensuring that vehicles operate efficiently and the amount of travel for delivery purposes minimised.

With respect to our suppliers, where practicable, we review their activities and supply chain to determine the impact on the environment and communities.

Communities

We are committed to the national community which we serve and to our employees. To this end, we have assisted the communities in the following ways:

- Lewis together with the GUS Charitable Trust has contributed to a children's crisis centre.
- Participated in the Get a Child to Work Project by exposing pupils from disadvantaged schools to the functioning of the Group.
- Making donations of kits to soccer clubs.
- Donating furniture to selected community projects and sponsoring computer hardware and software to various charities and schools.
- Participation in the local Woodstock upliftment project where the Group's head office is located.

Lewis will be one of the five major sponsors of the Community Chest Twilight Run, an annual event in Cape Town which assists in the fundraising drive of the Community Chest which distributes funds to over 520 charities.

In addition we contribute to the economic and social upliftment of the communities in which we operate by means of numerous smaller donations.

Through the Lewis Club the following contributions have been made to the social and economic upliftment of our communities:

- The provision of Damelin education bursaries to the value of R2 million per year to Club members, thereby assisting predominantly previously disadvantaged southern Africans to further their education. The bursary winners are published in the Club magazine.
- Two 24-hour toll-free lines offer Club members legal, healthcare, HIV and parenting advice. The legal and healthcare advice lines each average 9 000 calls per month. These services provide a much-needed service to customers, particularly those living in rural areas.
- The top three Club prize winners select charities of their choice and donations are made to these selected charities on their behalf.

Employees

Our business success relies on a productive workforce, where sound employee relations and open communications are key. We aim to create an environment where loyal people with strong entrepreneurial and work ethic are rewarded.

We are very aware of the costs associated with employee turnover and the cost of acquiring and training new staff. Staff retention is a high priority of our human resources strategy. There are a number of tenets of this strategy, one of which is to adequately remunerate employees for their contribution to the Group's overall success.

We provide for the development of our staff offering an extensive range of training courses for all employees concentrating on the skills set for each of the job categories. There is an induction programme designed to ensure that the employee is operational within 20 working days of joining. Thereafter, further classroom and on-the-job training is conducted.

Manager development programmes are in place to take the employee through junior management levels through to senior management roles where retail management and customer relationship courses at UNISA are attended.

A training team working closely with the human resources department circulates throughout South Africa providing onsite and offsite training supplementing interactive computer training on product knowledge at the stores. We are accredited as a training provider within the Wholesale and Retail Sector Educational and Training Authority. All refunds are reinvested in training.

The Group provides a number of other benefits:

- Voluntary medical aid for employees subsidised by the Company.
- Compulsory membership of either the Lewis Provident Fund or SACCAWU National Provident Fund.
- Home loans.
- Educational bursaries.
- Medical aid assistance.
- A subsidised canteen at head office.
- Counselling, advice and assistance to the employees who request such as a consequence of difficult personal circumstances.

We recognise our employees' rights to associate freely and to bargain collectively. A recognition agreement exists with the South African Commercial, Catering and Allied Workers Union (SACCAWU).

Transformation

We are committed to ensuring a workforce that is representative of the demographics of South Africa and our customer base. In 2000, a five-year Employment Equity Plan was compiled after consultation with stakeholders, including the trade unions. To date we have met the targets set in terms of the plan. Senior management have been tasked to monitor progress to ensure a successful implementation.

To support the process of transformation, staff drawn from previously disadvantaged groups have been assisted in their development through participation in training programmes. In addition a development pool comprising staff from previously disadvantaged communities, who have been identified as having management potential, are receiving further training and exposure.

Procurement

The Group procures a substantial amount of merchandise from independent suppliers, which are mostly small, medium and micro enterprises and mostly owned by persons from designated groups. More than 60% of lounge furniture, 19% of bedding, 9% of bedroom suites and more than 24% of other furniture lines are purchased from BEE suppliers. In addition 90% of all vehicles purchased were bought from a BEE vehicle dealership. Our payment terms are 30 days, compared to the average retail payment term of 90 days, which support the operations of these suppliers.

HIV/AIDS

We have an HIV/AIDS awareness programme which is integrated into the regular company training programmes available to our staff. The objective is to present the course to some 2 000 staff members annually, advising them of the effects of AIDS and prevention methods. In addition brochures are regularly distributed to staff.

Counselling, advice and assistance is available to employees who request such as a consequence of their personal circumstances. These services are provided at no cost to employees and are outsourced, guaranteeing total confidentiality.

Five-year **Review**

	2005 Rm	2004 Rm	2003 Rm	2002 Rm	2001 Rm
Group income statements					
Revenue	2 511.5	2 274.7	2 037.9	1 995.8	1 936.4
Cost of sales	(1 050.9)	(919.6)	(813.5)	(779.1)	(789.6)
Gross profit	1 460.6	1 355.1	1 224.4	1 216.7	1 146.8
Operating costs	(870.9)	(849.5)	(795.1)	(855.6)	(848.8)
Operating profit before exceptional item	589.7	505.6	429.3	361.1	298.0
Exceptional item	–	–	47.9	–	–
Operating profit	589.7	505.6	477.2	361.1	298.0
Investment income	45.9	34.9	39.7	49.6	33.7
Profit before interest and taxes (EBITA)	635.6	540.5	516.9	410.7	331.7
Net finance costs	(42.7)	(141.7)	(156.6)	(147.2)	(158.4)
Net profit before taxation	592.9	398.8	360.3	263.5	173.3
Taxation	(184.0)	(111.5)	(108.2)	(71.2)	(53.4)
Net profit attributable to ordinary shareholders	408.9	287.3	252.1	192.3	119.9
Headline earnings	404.3	287.6	248.1	196.7	117.2
Group Balance Sheets					
Assets					
Non-current assets	330.6	257.4	289.9	279.4	178.0
Property, plant and equipment	112.2	115.4	117.5	105.7	92.9
Investments – insurance business	171.6	146.2	172.4	173.7	85.1
Other	46.8	(4.2)	–	–	–
Current assets	2 300.2	2 562.5	2 256.9	2 286.9	2 115.8
Investments – insurance business	334.2	296.7	263.6	256.3	323.4
Inventories	160.1	155.3	120.2	132.8	122.9
Trade and other receivables	1 750.6	1 751.7	1 852.6	1 846.2	1 651.4
Cash and cash equivalents	55.3	358.8	20.5	45.6	18.1
Taxation	–	–	–	6.0	–
Total assets	2 630.8	2 819.9	2 546.8	2 566.3	2 293.8
Equity and liabilities					
Capital and reserves	2 059.4	1 310.0	1 153.5	921.4	698.1
Non-current liabilities	50.3	747.9	1 162.2	1 255.6	1 107.0
Interest-bearing borrowings	1.7	683.8	1 016.4	1 112.4	978.5
Other	48.6	64.1	145.8	143.2	128.5
Current liabilities	521.1	762.0	231.1	389.3	488.7
Trade and other payables	216.3	207.4	161.7	240.1	197.1
Current portion of interest-bearing borrowings	7.2	472.2	9.7	6.9	12.7
Short-term borrowings	172.0	–	36.7	142.3	276.0
Taxation	125.6	82.4	23.0	–	2.9
Total equity and liabilities	2 630.8	2 819.9	2 546.8	2 566.3	2 293.8

	2005 Rm	2004 Rm	2003 Rm	2002 Rm	2001 Rm
Group Cash Flow Statements					
Cash flow from trading	610.7	535.9	460.3	416.2	352.9
Working capital requirements	14.5	(27.0)	(79.5)	(158.8)	(112.1)
Operational cash flow	625.2	508.9	380.8	257.4	240.8
Exceptional item	–	–	47.9	–	–
Cash generated from operations	625.2	508.9	428.7	257.4	240.8
Dividends and interest received	34.8	49.5	48.1	52.8	30.7
Interest paid	(307.8)	(18.9)	(267.3)	(26.5)	(114.4)
Taxation paid	(207.7)	(99.2)	(90.5)	(68.9)	(39.4)
Dividends paid	(61.0)	–	–	–	–
Net cash retained from operations	83.5	440.3	119.0	214.8	117.7
Cash utilised in investing activities	(53.0)	(59.0)	(44.8)	(48.6)	(185.9)
Net effect of financing activities	(506.0)	(6.3)	6.3	(5.0)	(0.4)
Net cash (decrease)/increase in cash and cash equivalents	(475.5)	375.0	80.5	161.2	(68.6)

	2005	2004	2003	2002	2001
Ratios and statistics					
Returns					
Return on average shareholders' funds (%)	24.3%	24.8%	24.3%	23.7%	18.9%
After-tax return on average capital employed (%)	18.6%	17.0%	16.4%	14.2%	12.5%
After-tax return on average assets managed (%)	16.2%	14.4%	14.1%	12.2%	10.7%
Margins					
Gross margin (%)	58.2%	59.6%	60.1%	61.0%	59.2%
Operating margin (%)	23.5%	22.2%	21.1%	18.1%	15.4%
Productivity					
Number of stores	475	465	444	450	464
Revenue per store (R'000)	5 287	4 892	4 590	4 435	4 173
Operating profit per store (R'000)	1 241	1 087	967	802	642
Number of employees	5 870	5 776	5 525	5 584	5 714
Revenue per employee (R)	427 853	393 819	368 851	357 414	338 887
Operating profit per employee (R)	100 460	87 535	77 701	64 667	52 153
Trading space (sqm)	207 595	205 793	197 580	200 250	206 480
Revenue per sqm (R)	12 098	11 053	10 314	9 967	9 378
Operating profit per sqm (R)	2 841	2 457	2 173	1 803	1 443
Inventory turn (times)	5.7	5.1	5.8	5.0	5.3

	2005	2004	2003	2002	2001
Ratios and statistics – continued					
Credit ratios					
Cash sales % of total sales	25.1%	18.2%	16.8%	14.7%	13.3%
Bad and impairment charge as a % of gross trade receivables	3.8%	4.4%	6.4%	7.9%	10.8%
Debtors' impairment provision as a % of gross trade receivables (refer note 3)	14.4%	15.6%	10.2%	10.4%	10.5%
Total debtors' provisions as a % of gross trade receivables (refer note 3)	35.6%	35.0%	28.2%	28.3%	30.3%
Credit application decline rate %	20.5%	22.3%	23.7%	21.3%	19.1%
Average age of debtors book (months)	14.8	15.4	16.3	16.4	15.4
Arrear % (full contractual)	27.3%	28.9%	29.5%	28.5%	28.4%
Solvency and liquidity					
Financing cover (times)	14.9	3.8	3.3	2.8	2.1
Dividend cover (times)	3.0	n/a	n/a	n/a	n/a
Gearing ratio (%)	6.1%	60.9%	90.4%	132.0%	178.9%
Current ratio	4.4	3.4	9.8	5.9	4.3
Share performance					
Earnings per share (cents)	408.9	287.3	252.1	192.3	119.9
Headline earnings per share (cents)	404.3	287.6	248.1	196.7	117.2
Cash flow per share (cents)	625.2	508.9	428.7	257.4	240.8
Net book value per share (cents)	2 059.4	1 310.0	1 153.5	921.4	698.1
Share price:					
Closing price (R)	33.51	n/a	n/a	n/a	n/a
High (R)	41.50	n/a	n/a	n/a	n/a
Low (R)	28.20	n/a	n/a	n/a	n/a
Price-earnings ratio	8.2	n/a	n/a	n/a	n/a
Dividends per share for the financial year (R)	1.35	n/a	n/a	n/a	n/a
Number of shares in issue (million)	100	n/a	n/a	n/a	n/a
Volume of shares traded (million)	61.8	n/a	n/a	n/a	n/a
Value of shares traded (Rm)	2 139.5	n/a	n/a	n/a	n/a
Market capitalisation (Rm)	3 351	n/a	n/a	n/a	n/a
Number of shareholders	2 862	n/a	n/a	n/a	n/a

Explanatory notes:

1. All ratios are based on figures at the end of the period unless otherwise disclosed.
2. All amounts have been restated for the changes in accounting policies effected in the 2002 financial year relating to the depreciation of owner-occupied buildings, leave pay and post-retirement medical aid.
3. No restatement of the prior year figures was made for the impact of AC133 which was applied for the first time in the 2004 financial year. The application of AC133 resulted in 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.
4. The return and solvency/liquidity ratios for 2004 have been affected by changes in the Group structure prior to its listing.

Definitions

The definitions below should be read in conjunction with the accounting policies set out in the financial statements on pages 56 to 60.

Return on average shareholders' equity

Net 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 net profit attributable to ordinary shareholders plus net finance costs less the attributable tax thereon.

Capital employed is shareholders' interest and interest-bearing debt, reduced by cash and cash equivalents.

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 profit before interest and taxation less taxation per the income statement and the attributable tax on net 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 revenue.

Operating margin

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.

Financing cover

Profit before net finance costs and taxation divided by the net 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.

Note that for the share performance ratios below, the prior year's ratios are calculated using the current year's weighted average number of shares in issue to provide a meaningful comparative.

Earnings per share

Earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue, in accordance with the South African Statement of Generally Accepted Accounting Practice, AC104.

Headline earnings per share

Headline earnings as calculated in accordance with Circular 7/2002 issued by the South African Institute of Chartered Accountants 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 book value per share

The net book value divided by the weighted average number of shares in issue.

Price-earnings ratio

The closing price on the JSE divided by the earning per share.

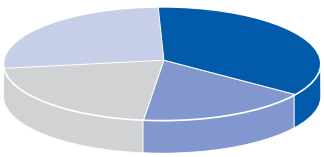
Dividends per share for the financial year

The dividends declared in respect of the financial year expressed as cents per share. Dividends in the financial accounts are those paid in the financial year, as required by South African Statement of Generally Accepted Accounting Practice, AC107.

Statement **of Value Added**

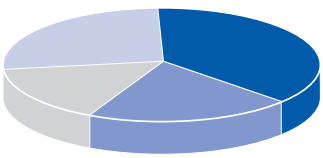
	Group			
	2005		2004	
	Rm	%	Rm	%
Revenue	2 511.5		2 274.7	
Paid to suppliers for goods and services	1 324.4		1 228.7	
Value added by operating activities	1 187.1		1 046.0	
Distributed as follows:				
Remuneration to employees	409.4	34.5	367.8	35.2
Returns to providers of capital:	203.1	17.1	236.8	22.6
To provide lenders with a return on their capital utilised	54.8		155.1	
To provide lessors with a return for the use of their premises	87.3		81.7	
To provide shareholders with a return on their equity	61.0		–	
Taxes paid to governments	256.3	21.6	163.5	15.6
Income taxation	250.9		158.6	
Regional Service Council levies	3.5		3.2	
Municipal rates	1.9		1.7	
Reinvested in the Group	318.3	26.8	277.9	26.6
Depreciation and amortisation	37.3		37.7	
Deferred taxation	(66.9)		(47.1)	
Net earnings retained	347.9		287.3	
Total wealth distributed	1 187.1	100.0	1 046.0	100.00

Distribution of Value Added 2005



Remuneration paid to employees
Returns to Providers of Capital
Taxes paid to government
Reinvested in Group

Distribution of Value Added 2004



Directors' **Responsibility** Statement

The annual financial statements have been prepared by management and conform with South African Statements of Generally Accepted Accounting Practice on a basis consistent with the previous year.

The financial statements which presents the results and financial position of the Company and its subsidiaries are the responsibility of the directors.

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

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

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

The Board of directors have reviewed the business of the Group together with budget and cash flows for the year to 31 March 2006 as well as the current financial position and have no reason to believe that the Group will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the financial statements.

PricewaterhouseCoopers Inc. as external auditors have audited the financial statements and their unqualified report appears on page 48.

The financial statements of the Group and the Company for the year ended 31 March 2005, which appear on pages 49 to 77, has been approved by the Board of directors and signed on their behalf by:

DM NUREK
Chairman

Cape Town
16 May 2005

AJ SMART
Chief Executive Officer

Company Secretary's **Certificate**

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

PB CROUCHER
Company Secretary

Cape Town
16 May 2005

Report of the **Independent Auditors**

Report of the independent auditors to the members of the Lewis Group Limited

We have audited the annual financial statements of the Group and Company set out on pages 49 to 77 for the year ended 31 March 2005. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with Statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting policies used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of the Group and the Company at 31 March 2005 and the results of their operations and cash flows for the year then ended in accordance with Statements of Generally Accepted Accounting Practice in South Africa and in the manner required by the South African Companies Act of 1973.

PricewaterhouseCoopers Inc

PricewaterhouseCoopers Incorporated

Chartered Accountants (SA)
Registered Accountants and Auditors

Cape Town
16 May 2005

Directors' **Report**

Nature of business

Lewis Group Limited is a holding company listed on the JSE Securities Exchange, operating through two main trading subsidiaries, Lewis Stores (Proprietary) Limited and Monarch Insurance Company Limited. Lewis Stores (Proprietary) Limited offers a selected range of furniture and appliances through 400 Lewis and 58 Best Electric stores. Sales are mainly on credit. Monarch Insurance Company Limited, a registered short-term insurer, underwrites Customer Protection Insurance benefits to South African customers. In addition there are also trading subsidiaries in Botswana, Lesotho, Namibia and Swaziland operating under the Lewis brand. Lifestyle Living with 17 stores, which focuses on the more upmarket segment of the furniture retailing market, was acquired on 7 October 2003.

The nature of the business of the subsidiaries is set out on page 77.

Review of financial results and activities

The financial results and affairs of the Group are reflected in the annual financial statements set out on pages 52 to 77.

Post-balance sheet events

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

Share capital

In anticipation of the listing, the GUS PLC Group acquired the entire share capital of Lewis Group Limited (then Rowmoor Investments 505 (Proprietary) Limited), a "shelf company". The Company was incorporated on 19 April 2004 with an authorised share capital of R1 000, divided into 1 000 ordinary shares with a par value of R1.00 each, and an issued share capital of R10.00 divided into ten ordinary shares with a par value of R1.00 each and with no share premium.

Alterations to share capital and share premium

On 3 June 2004, the Company subdivided its authorised share capital into 100 000 ordinary shares with a par value of one cent each.

On 15 July 2004, the Company increased its authorised share capital to R1 500 000 divided into 150 000 000 ordinary shares with a par value of one cent each and placed such authorised share capital under the control of the directors.

Shares issued

The Company issued 99 999 000 shares to the GUS PLC Group in consideration for the transfer to the Company of the entire share capital of Lewis Stores (Pty) Ltd. The issue price was R28.00 being the par value of one cent and share premium of R27.99 per share.

Repurchase of shares

No shares have been repurchased by the Company or its subsidiaries.

Dividends

The following dividends have been declared or proposed for the financial year ended March 2005:

	Dividend per share	Date declared	Payable
Interim – declared	61.0 cents	15 Nov 2004	31 Jan 2005
Final – proposed	74.0 cents	16 May 2005	25 Jul 2005
For the year	135.0 cents		

Directors

The director of Lewis Group Limited on incorporation (Rowmoor Investments 505 (Proprietary) Limited) was SK Gottschalk who resigned on 22 June 2004. The following directors were appointed to the Board:

DM Nurek (Chairman)	15 July 2004
H Saven	22 June 2004
AJ Smart	22 June 2004
DA Tyler	22 June 2004
BJ van der Ross	22 June 2004

CVs of the above directors are set out on pages 6 to 7.

In terms of the Articles of Association of the Company, one-third of the Board is required to retire by rotation at each annual general meeting. Retiring directors are those who have been longest in office and, if more than one of them were elected directors on the same day, those to retire shall be determined by lot or by agreement between the directors. It has been agreed between the directors that AJ Smart and DA Tyler will retire. AJ Smart has offered himself for re-election.

Company Secretary

AJ Meerburg appointed as company secretary on 22 June 2004, resigned on 19 November 2004 and PB Croucher was appointed in his stead on that day. The address of the company secretary is that of the registered offices as stated on the inside cover.

Directors' Interests

At 31 March 2005, the directors' beneficial direct and indirect interest in the Company's issued shares was as follows:

	2005	
	Direct	Indirect
DM Nurek	10 000	–
H Saven	–	–
AJ Smart	–	–
DA Tyler	–	–
BJ van der Ross	–	–

In terms of the Lewis Executive IPO Restricted Share Scheme and the Lewis Executive Share Option Scheme, AJ Smart is entitled to 219 428 shares and 219 428 options on the vesting dates set out below.

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

No related party transaction in terms of the JSE Securities Exchange listing regulations took place between the Company or its subsidiaries and the directors or their associates, other than remuneration for services rendered to the Company as set out on page 38.

Lewis Group Share Trust

The employee incentive schemes are in operation for employees, including 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. The three schemes in operation are:

- *Lewis Executive IPO Restricted Share Scheme:*
  - The participants under this scheme are limited to members of the senior management of the Group.
- *Lewis All Employee Share Scheme:*
  - The scheme is open to all employees.
- *Lewis Executive Share Option Scheme:*
  - The scheme is for executive directors and senior management.

The GUS PLC Group made 4% of the issued share capital of the Company at the date of the listing available to the Share Trust for the awards and options as they vest.

Details of the award shares and options are set out below:

	Granted	Allocated	Forfeited	Balance
Executive IPO Restricted Share Scheme*	951 876	–	(22 532)	929 344
All Employee Share Scheme*	1 623 837	(11 311)	(114 168)	1 498 358
Executive Share Option Scheme†	822 850	–	(15 021)	807 829

* shares for no consideration
† exercise price of R28

The award shares and options were granted on 4 October 2004, the date of listing. The vesting dates are as follows:

Share incentive scheme	Dates on which shares/options vest (33% at each date)		
Lewis Executive IPO Restricted Shares Scheme	4 October 2007	4 October 2008	4 October 2009
Lewis All Employee Share Scheme	4 October 2006	4 October 2007	4 October 2008
Lewis Executive Share Option Scheme	4 October 2007	4 October 2008	4 October 2009

Subsidiary companies

Details of the Company's subsidiaries are set out on page 77.

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

	2005 Rm
Profits	412.0
Losses	(0.7)

Borrowing powers

Borrowings were R180.9 million at 31 March 2005. Borrowings are subject to the treasury policy adopted by the Board of directors. In terms of the Articles of Association, the Group has unlimited borrowing powers.

Unissued shares

It has been requested of the members to place 10 million unissued shares of the Company under the control of the directors subject to the regulations of the JSE Securities Exchange and a resolution for this purpose appears with the notice of the forthcoming annual general meeting.

Holding company and shareholders

For the year under review, the Company was controlled by GUS Holdings BV, a company incorporated in the Netherlands, which owned 54% of the shares. The remaining 46% of the shares are widely held. The ultimate parent is GUS PLC, a company incorporated in the United Kingdom and whose shares are listed on the London Stock Exchange.

For details of shareholders' spreads and major shareholders, refer to page 78.

Special resolution

- At a general meeting of shareholders on 3 June 2004 it was resolved that:

  "The authorised share capital of R1 000.00 (one thousand Rand) divided into 1 000 ordinary shares of R1.00 (one Rand) each be and is hereby subdivided into 100 000 (One hundred thousand) ordinary shares of R0.01 (one cent) each. All shares rank pari passu."

- A Resolution was adopted on 15 July 2004 that:

  "(1) The authorised share capital of the Company be and is hereby increased from R1 000.00 (one thousand Rand) divided into 100 000 (one hundred thousand) ordinary shares of R0,01 (one cent) each, to R1 500 000.00 (one million five hundred thousand Rand) divided into 150 000 000 (one hundred and fifty million) ordinary shares of R0.01 (one cent) each, by the creation of an additional R1 499 000.00 (one million four hundred and ninety nine thousand Rand) divided into 149 900 000 ordinary shares of R0.01 (one cent) each. All ordinary shares rank pari passu.

  (2) The Company be and is hereby converted from a (Proprietary) Limited Company to a Limited Company.

  (3) Subject to the passing and registration of special resolution no. 2, the name of the Company be and is hereby changed to Lewis Group Limited.

  (4) Subject to the passing and registration of special resolutions no. 1 and no. 2, the Memorandum of Association be and is hereby deleted and replaced by the new Memorandum of Articles.

  (5) Subject to the passing and registration of special resolution no. 2, the Articles of Association be and is hereby deleted in its entirety and replaced by the new Articles of Association."

The purpose of the above resolutions were to prepare the Company for listing on the JSE Securities Exchange.

- It was further resolved on 8 September 2004 that:

  "The Company hereby approves, as a general approval contemplated in sections 85 and 89 of the Companies Act, No. 61 of 1973, as amended ("the Companies Act") the acquisition by the Company or any of its subsidiaries from time to time of the issued shares of the Company, upon such terms and conditions and in such amounts as the directors of the Company may from time to time determine, but subject to the Articles of Association of the Company and the provisions of the Companies Act and if and for so long as, the shares in the Company are listed on the JSE Securities Exchange South Africa ("JSE"), subject also to the Listings Requirements of the JSE".

Balance **Sheets**

at 31 March 2005

	Notes	Group 2005 Rm	Group 2004 Rm	Company 2005 Rm	Company 2004 Rm
Assets					
Non-current assets					
Property, plant and equipment	3	**112.2**	115.4	**–**	
Negative goodwill	4	**–**	(4.2)	**–**	
Investments – insurance business	5	**171.6**	146.2	**–**	
Deferred taxation	13	**46.8**	–	**–**	
Interest in subsidiaries	6	**–**	–	**2 802.1**	
		330.6	257.4	**2 802.1**	
Current assets					
Investments – insurance business	5	**334.2**	296.7	**–**	
Inventories	7	**160.1**	155.3	**–**	
Trade and other receivables	8	**1 750.6**	1 751.7	**–**	
Cash on hand and deposits		**55.3**	358.8	**–**	
		2 300.2	2 562.5	**–**	
Total assets		**2 630.8**	2 819.9	**2 802.1**	
Equity and liabilities					
Capital and reserves					
Share capital and premium	9	**676.9**	300.9	**2 800.0**	
Non-distributable reserves	10	**54.7**	32.1	**–**	
Distributable reserve	11	**1 327.8**	977.0	**0.2**	
		2 059.4	1 310.0	**2 800.2**	
Non-current liabilities					
Interest-bearing borrowings	12	**1.7**	683.8	**–**	
Deferred taxation	13	**12.0**	28.1	**–**	
Retirement benefits	14	**36.6**	36.0	**–**	
		50.3	747.9	**–**	
Current liabilities					
Trade and other payables	15	**216.3**	207.4	**1.9**	
Taxation		**125.6**	82.4	**–**	
Current-portion of interest-bearing borrowings	12	**7.2**	472.2	**–**	
Overdrafts and short-term interest-bearing borrowings	16	**172.0**	–	**–**	
		521.1	762.0	**1.9**	
Total equity and liabilities		**2 630.8**	2 819.9	**2 802.1**	
Shares in issue (millions)		**100**	100		
Net asset value per share (cents)		**2 059.4**	1 310.0		

Income **Statements**

for the year ended 31 March 2005

	Notes	Group 2005 Rm	Group 2004 Rm	Company 2005 Rm	Company 2004 Rm
Revenue	17	**2 511.5**	2 274.7	**–**	
Cost of sales	18	**(1 050.9)**	(919.6)	**–**	
Gross profit		**1 460.6**	1 355.1	**–**	
Bad debts and impairment provision	19	**(101.6)**	(115.1)	**–**	
Depreciation	3	**(37.3)**	(38.7)	**–**	
Employment costs	14	**(409.4)**	(367.8)	**–**	
Occupancy costs		**(89.2)**	(83.4)	**–**	
Other operating costs		**(233.4)**	(244.5)	**(2.4)**	
Operating profit	21	**589.7**	505.6	**(2.4)**	
Investment income	22	**45.9**	34.9	**63.6**	
Profit before finance costs		**635.6**	540.5	**61.2**	
Net finance costs	23	**(42.7)**	(141.7)	**–**	
Profit before taxation		**592.9**	398.8	**61.2**	
Taxation	24	**(184.0)**	(111.5)	**–**	
Net profit attributable to ordinary shareholders		**408.9**	287.3	**61.2**	
Earnings per share (cents)	25	**408.9**	287.3		
Headline earnings per share (cents)	25	**404.3**	287.6		
Diluted earnings per share (cents)	25	**408.9**	287.3		
Diluted headline earnings per share (cents)	25	**404.3**	287.6		
Dividends per share:					
Interim (cents)	26	**61.0**	–		
Final – proposed (cents)		**74.0**	–		

Statements of **Changes in Equity**

for the year ended 31 March 2005

	Notes	Share capital and premium Rm	Non-distributable reserves Rm	Distributable reserves Rm	**Total Rm**
Group					
Balance at 31 March 2003		300.9	17.1	691.3	**1 009.3**
Net profit attributable to ordinary shareholders		–	–	287.3	**287.3**
Fair value adjustments of available-for-sale investments, net of tax		–	26.7	–	**26.7**
Loss on disposal of available-for-sale investments recognised		–	3.0	–	**3.0**
Transfer to contingency reserve		–	1.6	(1.6)	**–**
Foreign currency translation reserve movement		–	(16.3)	–	**(16.3)**
Balance at 31 March 2004		300.9	32.1	977.0	**1 310.0**
Negative goodwill transferred to distributable reserves (in terms of the transitional provisions of AC140)	2	–	–	4.2	**4.2**
Restated balance at 1 April 2004		300.9	32.1	981.2	**1 314.2**
Issue of shares		376.0	–	–	**376.0**
Net profit attributable to ordinary shareholders		–	–	408.9	**408.9**
Fair value adjustments of available-for-sale investments, net of tax		–	25.5	–	**25.5**
Profit on disposal of available-for-sale investments recognised		–	(1.4)	–	**(1.4)**
Transfer to contingency reserve		–	2.2	(2.2)	**–**
Revaluation surplus realised on sale of properties		–	(0.8)	0.8	**–**
Deferred taxation release on revaluation surplus realised		–	–	0.1	**0.1**
Foreign currency translation reserve movement		–	(2.9)	–	**(2.9)**
Dividends paid	26	–	–	(61.0)	**(61.0)**
Balance at 31 March 2005		676.9	54.7	1 327.8	**2 059.4**
Company					
Issue of shares during the financial year	9	2 800.0	–	–	**2 800.0**
Net profit attributable to ordinary shareholders		–	–	61.2	**61.2**
Dividends paid		–	–	(61.0)	**(61.0)**
Balance at 31 March 2005		2 800.0	–	0.2	**2 800.2**

Cash Flow **Statements**

for the year ended 31 March 2005

	Notes	Group 2005 Rm	Group 2004 Rm	Company 2005 Rm	Company 2004 Rm
Cash flow from operating activities					
Cash flow from trading	27.1	**610.7**	535.9	**(2.4)**	
Working capital movement	27.2	**14.5**	(27.0)	**1.9**	
Cash generated from operations		**625.2**	508.9	**(0.5)**	
Dividends and interest received		**34.8**	49.5	**63.6**	
Finance costs		**(307.8)**	(18.9)	**–**	
Taxation paid	27.3	**(207.7)**	(99.2)	**–**	
Dividends paid		**(61.0)**	–	**(61.0)**	
Cash retained from operating activities		**83.5**	440.3	**2.1**	
Cash utilised in investing activities					
Net additions to insurance business investments		**(23.6)**	(8.3)	**–**	
Acquisition of subsidiary company	27.4	**–**	(18.6)	**–**	
Loans to subsidiary companies		**–**	–	**(2.1)**	
Acquisition of property, plant and equipment		**(37.4)**	(36.3)	**–**	
Proceeds on disposal of property, plant and equipment		**8.0**	4.2	**–**	
Net cash outflow from investing activities		**(53.0)**	(59.0)	**(2.1)**	
Cash effects of financing activities					
Amount owing to holding company		**(500.0)**	–	**–**	
Finance lease liability		**(6.0)**	(6.3)	**–**	
Net cash outflow from financing activities		**(506.0)**	(6.3)	**–**	
Net (decrease)/increase in cash and cash equivalents		**(475.5)**	375.0	**–**	
Cash and cash equivalents at the beginning of the year		**358.8**	(16.2)		
Cash and cash equivalents at the end of the year	27.5	**(116.7)**	358.8	**–**	

Notes to the **Annual Financial Statements**

for the year ended 31 March 2005

1. BASIS OF PREPARATION

These annual financial statements are prepared on a historical cost basis, adjusted for the revaluation of land and buildings and the restatement of certain financial instruments to fair value. The financial statements incorporate the following accounting policies which conform with South African Statements of Generally Accepted Accounting Practice. These policies are consistent with those applied in the previous year, except for the change in accounting policy in respect of the adoption of AC140 (Business Combinations) set out in 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 dates 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.

In anticipation of the listing, Lewis Group Limited acquired the entire share capital of Lewis Stores (Pty) Ltd from the GUS PLC Group and, in return, issued its share capital to the GUS PLC Group. The effect of the transaction was to interpose Lewis Group Limited as the holding company of Lewis Stores (Pty) Ltd. The restructuring affected the share capital of Lewis Group Limited, but it had no impact on the equity of the consolidated Lewis Group as in substance, no transaction occurred. The shareholder equity and reserves, and the results disclosed for the Lewis Group in the current and prior years are, therefore, of Lewis Stores (Pty) Ltd and its subsidiaries.

Investments in subsidiaries are carried at cost less any impairments. Employee share trusts are consolidated. Shares in Lewis Group Limited held by the share trusts 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 of the interest 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 *Foreign currency transactions and balances*

Foreign currency transactions are accounted for at the exchange rate ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Resultant exchange profits and losses are recognised in the income statement.

1.3.2 *Foreign entities*

Foreign subsidiaries are classified as foreign entities. The assets and liabilities of foreign subsidiaries (excluding loans which are part of the net investment) are translated into South African Rands at the rate of exchange ruling at the balance sheet date. Income, expenditure and cash flow items are translated at the average rate of exchange for the year. 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

Financial instruments are initially measured at cost, including transaction costs. The subsequent measurement of the various financial instruments is as follows:

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 its exposure to foreign currency fluctuations. Despite the derivative instruments providing effective economic hedges, changes in the fair value of these derivative instruments are recognised immediately in the income statement.

1.4.3 ***Investments***

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) Investments that are acquired principally for the purpose of generating profits from short-term fluctuations in price are classified as trading investments and are included in current assets.

(ii) Investments acquired with the intention of being held indefinitely, which may be sold to raise operating capital or due to changes in investment strategy, are classified as available-for-sale and are included in non-current assets, unless management has the express intention of holding the investment for less than twelve months from the balance sheet date.

(iii) Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturities that 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.

Purchases and sales of investments are recognised on the trade date, being the date that the Group commits to the transaction. The cost of the purchase, for initial recognition purposes, includes transaction costs. Thereafter both the trading and available-for-sale assets are carried at fair value, which is calculated by reference to quoted bid prices at the close of business on the balance sheet date or, where appropriate, discounted cash flow models. Realised and unrealised gains and losses arising from changes in the fair value of trading investments are included in the income statement in the period in which they arise, and unrealised gains and losses arising from changes in fair value of available-for-sale investments are recognised in equity. When investments classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investments.

1.4.4 ***Trade and other receivables***

Trade receivables are recognised at amortised cost using the effective interest rate, less provision for impairment. A provision for impairment of trade receivables 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, with the exception of land and buildings, is carried at cost less accumulated depreciation.

Freehold land and buildings are initially measured at cost and subsequently at market value less subsequent accumulated depreciation and impairments in value.

Market value is based on valuations performed by independent external valuers every five years. Increases in carrying value are taken directly to a revaluation reserve. On disposal of a previously revalued property, any amount relating to that asset remaining in the revaluation reserve, is transferred directly to retained earnings. Decreases in market value that offset previous increases in the same asset are charged against the revaluation reserve. All other decreases are charged to the income statement. Revaluation reserves are not adjusted for the additional depreciation incurred on the revalued amount.

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
Computer equipment	3 years
Computer software	2 – 3 years
Furniture and equipment	3 – 10 years
Vehicles	3 – 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 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 against operating profit systematically 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 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**

The carrying value of assets is reviewed whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying value exceeds the estimated recoverable amount, such assets are written down to their recoverable amount.

1.9 **Deferred taxation**

Deferred taxation is provided, using the liability method, on all temporary differences between the taxation base of an asset or liability and its carrying value. The deferred taxation is calculated based on currently enacted rates of taxation. A deferred tax asset is raised only if, and to the extent that, it is probable that sufficient taxable profit will arise in the foreseeable future against which the asset can be realised. Provision for taxation which could arise on remittance of retained earnings is only made where there is a current intention to remit such earnings.

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***

Provisions are made for the estimated final costs 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 (IBNR reserve).

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 are treated as an appropriation of distributable reserves.

1.11.3 ***Provision for unearned premiums***

The provision for unearned premiums represents that part of the current year's premiums that relates 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 basis is representative of the internal structure for management purposes. The source and nature of business risks are segmented on the same basis. 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 – 24 months but are classified as current as they form part of the normal operating cycle.

1.14 **Employee benefits**

1.14.1 ***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 AC 116, 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.

1.14.2 ***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.

1.14.3 ***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.

1.15 **Borrowings**

Borrowings are recognised initially 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.

1.16 **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.

1.17 **Revenue recognition**

Revenue comprises merchandise sales net of discounts, earned finance charges, earned TV and appliance service contracts, cartage and gross insurance premiums earned. 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 on a straight-line basis, over a 24-month period, commencing after the manufacturer's guarantee has expired. 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.

1.18 **Cost of sales**

Cost of sales includes the costs of merchandise and distribution costs incurred in bringing inventories to their final retail location, as well as re-insurance premiums.

1.19 **Share-based payments**

The Group operates a number of share incentive trusts. The shares have been provided to these trusts at no consideration by the controlling shareholder.

No expense for share-based payments has been recognised in the income statement.

2. CHANGE IN ACCOUNTING POLICY

The adoption of AC 140 (Business Combinations) results in the following change to the accounting policy on goodwill:

- Purchased goodwill will not be amortised over the lesser of its effective useful life and 20 years, but is capitalised and subjected to an annual impairment test.
- Negative goodwill is no longer amortised to income on a systematic basis over the remaining weighted average useful life of the identifiable acquired assets, but is recognised immediately in profit and loss. Previously recognised negative goodwill has been treated in accordance with the transitional provisions of AC140 and derecognised to distributable reserves on 1 April 2004. No restatement of the 2004 Group results has been made.

The effect of the change in accounting policy is as follows:

	Distributable reserves
Impact on opening reserves – Group:	
Opening balance as at 31 March 2004	977.0
Derecognition of previously recognised negative goodwill	4.2
Restated balance as at 1 April 2004	981.2

3. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Leased equipment	Vehicles and fixtures	Total
Group				
As at 31 March 2005				
Opening net carrying value	**37.1**	**7.3**	**71.0**	**115.4**
Additions	**1.2**	**–**	**36.2**	**37.4**
Disposals	**(0.8)**	**(0.5)**	**(2.0)**	**(3.3)**
Depreciation	**(1.1)**	**(4.6)**	**(31.6)**	**(37.3)**
Closing net carrying value	**36.4**	**2.2**	**73.6**	**112.2**
Cost	**86.0**	**67.6**	**226.5**	**380.1**
Accumulated depreciation	**(49.6)**	**(65.4)**	**(152.9)**	**(267.9)**
As at 31 March 2004				
Opening net carrying value	38.3	11.2	68.0	117.5
Additions	–	2.5	35.2	37.7
Disposals	–	(0.1)	(1.0)	(1.1)
Depreciation	(1.2)	(6.3)	(31.2)	(38.7)
Closing net carrying value	37.1	7.3	71.0	115.4
Cost	86.4	68.2	209.4	364.0
Accumulated depreciation	(49.3)	(60.9)	(138.4)	(248.6)

Computer equipment, with a carrying value of R2.2 million (2004 – R6.7 million) acts as security for finance lease liabilities – refer capitalised finance lease liabilities note 12.

The market value of freehold land and buildings was established by independent external professional valuers at 1 October 2001 on an open market basis. If land and buildings had not been revalued, the carrying value would be R10.2 million (2004 – R9.2 million). Depreciation would be R0.9 million (2004 – R0.9 million) less. A register of the Group's land and buildings is available for inspection at the Group's registered office.

Included in additions in 2004 is property, plant and equipment to the value of R1.4 million acquired as part of the acquisition of Lifestyle Living (Pty) Ltd.

for the year ended 31 March 2005

		Group		Company	
		2005	2004	**2005**	2004
		Rm	Rm	**Rm**	Rm
4.	**NEGATIVE GOODWILL**				
	Opening balance	**(4.2)**	–	–	
	Transferred to retained income in terms of AC140 (refer note 2)	**4.2**	–	–	
	Acquired during the year	**–**	(5.2)	–	
	Amortised	**–**	1.0	–	
	Closing balance	**–**	(4.2)	–	
5.	**INVESTMENTS – INSURANCE BUSINESS**				
	Carrying value				
	Listed investments				
	Listed shares – available-for-sale	**115.1**	89.7	–	
	Investment policy – available-for-sale	**56.5**	56.5	–	
	Gilts – held-for-trading	**229.0**	208.0	–	
	Unlisted Investments				
	Money market – held-to-maturity	**105.2**	88.7	–	
		505.8	442.9	–	
	Analysed as follows				
	Long term	**171.6**	146.2	–	
	Short term	**334.2**	296.7	–	
		505.8	442.9	–	
	Market value				
	Listed investments				
	Listed shares – available-for-sale	**115.1**	89.7	–	
	Investment policy – available-for-sale	**56.5**	56.5	–	
	Gilts – held-for-trading	**229.0**	208.0	–	
	Money market – held-to-maturity	**105.2**	88.7	–	
		505.8	442.9	–	
	Analysed as follows				
	Long term	**171.6**	146.2	–	
	Short term	**334.2**	296.7	–	
		505.8	442.9	–	

A register of the Group's listed investments is available for inspection at the Group'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.

		Group		Company	
		2005	2004	**2005**	2004
		Rm	Rm	**Rm**	Rm
6.	**INTEREST IN SUBSIDIARIES**				
	Shares at cost			**2 800.0**	
	Indebtedness			**2.1**	
				2 802.1	
	Details of investments in and indebtedness by subsidiaries is given on page 77.				
7.	**INVENTORIES**				
	Merchandise	**160.1**	155.3	**–**	
8.	**TRADE AND OTHER RECEIVABLES**				
	Instalment sale and loan receivables	**2 677.1**	2 630.4	**–**	
	Provision for unearned finance charges, unearned insurance premiums and unearned maintenance income	**(568.8)**	(511.9)	**–**	
	Provision for impairment	**(385.4)**	(409.1)	**–**	
	Net instalment sale and loan receivables	**1 722.9**	1 709.4	**–**	
	Other receivables	**27.7**	42.3	**–**	
		1 750.6	1 751.7	**–**	
	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 – 24 months.				
	The receivables have been ceded to the Group's bankers as security for the facilities granted. Refer note 16.				
9.	**SHARE CAPITAL AND PREMIUM**				
9.1	**Authorised**				
	150 000 000 ordinary shares of 1c each	**1.0**	1.0	**1.5**	
9.2	**Issued**				
	100 000 000 ordinary shares of 1c each	**0.9**	0.9	**1.0**	
	Share premium	**676.0**	300.0	**2 799.0**	
		676.9	300.9	**2 800.0**	
	The accounting treatment with respect to the interposition of Lewis Group Limited as the holding company is set out in note 1.1.				

for the year ended 31 March 2005

	Group		Company	
	2005	2004	**2005**	2004
	Rm	Rm	**Rm**	Rm
10. NON-DISTRIBUTABLE RESERVES				
Comprising:				
Fair value reserve	**8.3**	(15.8)	**–**	
Foreign currency translation reserve	**(5.1)**	(2.2)	**–**	
Surplus on revaluation of land and buildings	**27.7**	28.5	**–**	
Other	**0.8**	0.8	**–**	
	31.7	11.3	**–**	
Statutory insurance contingency reserve	**23.0**	20.8	**–**	
	54.7	32.1	**–**	
Detailed movements in the non-distributable reserves are disclosed in the statement of changes in equity.				
11. DISTRIBUTABLE RESERVE				
Comprising:				
Company	**0.2**	–	**0.2**	
Consolidated subsidiaries	**1 327.6**	977.0	**–**	
	1 327.8	977.0	**0.2**	
Distribution by certain foreign subsidiaries will give rise to withholding taxes of R34.8 million (2004 – R31.6 million). No provision is raised until dividends are declared.				
12. INTEREST-BEARING BORROWINGS				
Capitalised finance leases secured by computer equipment with a net book value of R2.2 million (2004 – R6.7 million), bearing interest at rates linked to prime, repayable annually over periods of three years	**8.9**	14.9	**–**	
Current portion of capitalised finance lease	**(7.2)**	(7.1)	**–**	
Unsecured Rand denominated loan from fellow subsidiary, bearing interest at the prime lending rate (includes capitalised interest of R265.1 million)	**–**	1 141.1	**–**	
Current portion of loan from fellow subsidiary	**–**	(465.1)	**–**	
	1.7	683.8	**–**	
Total interest-bearing borrowings	**8.9**	1 156.0	**–**	
Long-term portion of interest-bearing borrowings	**1.7**	683.8	**–**	
Current portion of interest-bearing borrowings	**7.2**	472.2	**–**	
The loan from a fellow subsidiary was settled in July 2004 by capitalising R376 million of the loan and settling the outstanding balance by way of cash resources and bank facilities raised in substitution. Refer note 16.				

		Group		Company	
		2005	2004	**2005**	2004
		Rm	Rm	**Rm**	Rm
13.	**DEFERRED TAXATION**				
	Balance at the beginning of the year	**28.1**	112.1	**–**	
	Movement for the year attributable to:				
	Income statement charge	**(66.9)**	(47.1)	**–**	
	Fair value adjustment adjusted in equity – see reconciliation below	**4.1**	(39.9)	**–**	
	Deferred taxation released on realisation of revaluation surplus	**(0.1)**	–	**–**	
	Deferred taxation on acquisition of subsidiary	**–**	3.0	**–**	
	Balance at the end of the year	**(34.8)**	28.1	**–**	
	This balance comprises				
	Deferred tax (asset)/liability				
	Asset revaluations and fair value adjustments	**14.9**	9.3	**–**	
	Debtors allowances	**(30.0)**	36.0	**–**	
	Income and expense recognition	**2.9**	1.5	**–**	
	Other provisions	**(22.6)**	(18.7)	**–**	
	Balance at the end of the year	**(34.8)**	28.1	**–**	
	Disclosed as:				
	Deferred tax assets	**(46.8)**	–	**–**	
	Deferred tax liability	**12.0**	28.1	**–**	
		(34.8)	28.1	**–**	
	Deferred tax credits/(charges) to equity during the year are as follows:				
	Required by adoption of AC133 :				
	– Present value adjustment – instalment sale receivables (retained income)	**–**	(46.3)	**–**	
	– Revaluation of held-for-trading investments (retained income)	**–**	4.0	**–**	
	– Revaluation of available-for-sale investments (fair value reserve)	**–**	(2.1)	**–**	
	Provided on fair value adjustments of available-for-sale assets	**4.1**	4.5	**–**	
		4.1	(39.9)	**–**	
14.	**DIRECTORS AND EMPLOYEES**				
14.1	**Pension and other post-retirement benefits**				
	Amounts recognised in the balance sheet				
	Defined benefit retirement plan liability	**1.9**	5.0	**–**	
	Post-retirement healthcare benefits	**34.7**	31.0	**–**	
		36.6	36.0	**–**	

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.

	Group		Company	
	2005	2004	**2005**	2004
	Rm	Rm	**Rm**	Rm
14. DIRECTORS AND EMPLOYEES (continued)				
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 AC116 using the projected unit credit method. The latest valuation was carried out as at 1 January 2005.				
Amounts recognised in the balance sheet				
Present value of obligations	**242.5**	226.3	**–**	
Fair value of plan assets	**(213.6)**	(181.9)	**–**	
	28.9	44.4	**–**	
Unrecognised actuarial losses	**(27.0)**	(39.4)	**–**	
Defined benefit retirement plan liability	**1.9**	5.0	**–**	
Amounts recognised in the income statement				
Current service cost	**9.2**	9.0	**–**	
Interest cost	**20.1**	21.7	**–**	
Expected return on plan assets	**(17.5)**	(17.9)	**–**	
Net actuarial losses recognised in the year	**1.1**	1.2	**–**	
Total included in staff costs	**12.9**	14.0	**–**	
Movement in retirement benefit liability				
Present value at the beginning of the year	**5.0**	4.2	**–**	
Income statement charge	**12.9**	14.0	**–**	
Contributions paid during the year	**(16.0)**	(13.2)	**–**	
Present value at the end of the year	**1.9**	5.0	**–**	
Principal actuarial assumptions used were as follows:				
Discount rate	**9.0%**	9.0%	**–**	
Expected return on plan assets	**9.5%**	9.5%	**–**	
Inflation rate	**6.0%**	6.0%	**–**	
Future salary increases	**7.0%**	7.0%	**–**	
Future pension increases	**6.0%**	6.0%	**–**	
Defined contribution plans				
For defined contribution plans, the Group pays contributions to the funds on a contractual basis. Once the contributions have been paid, the Group has no further payment obligations.				
Defined contribution plan costs	**13.5**	12.0	**–**	

		Group		Company	
		2005	2004	**2005**	2004
		Rm	Rm	**Rm**	Rm
14.	**DIRECTORS AND EMPLOYEES (continued)**				
	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 1 January 2005 by a qualified actuary in accordance with the requirements of AC116.				
	Amounts recognised in the income statement				
	Current service cost	**0.7**	0.8	**–**	
	Interest cost	**2.4**	3.1	**–**	
	Actuarial loss/(gain)	**2.5**	(0.9)	**–**	
	Income statement charge	**5.6**	3.0	**–**	
	Defined benefit plans				
	Movement in post-retirement healthcare liability				
	Present value of liability at the beginning of the year	**31.0**	29.5	**–**	
	Charged to income statement	**5.6**	3.0	**–**	
	Employer benefit payments	**(1.9)**	(1.5)	**–**	
	Post-retirement healthcare benefits liability	**34.7**	31.0	**–**	
	Principal actuarial assumptions used were as follows:				
	Healthcare inflation rate	**4.0%**	7.0%	**–**	
	CPI inflation	**4.0%**	4.5%	**–**	
	Discount rate	**8.5%**	9.0%	**–**	
	Average retirement age (years)	**63**	63	**–**	
14.2	**Employment costs**				
	Salaries, wages, commissions and bonuses	**377.4**	338.8	**–**	
	Other employment costs	**32.0**	29.0	**–**	
		409.4	367.8	**–**	
	Average number of employees	**5 848**	5 607	**–**	
15.	**TRADE AND OTHER PAYABLES**				
	Trade payables	**74.9**	76.8	**–**	
	Accruals and other payables	**63.9**	50.6	**1.9**	
	Reinsurers balance				
	– External third party	**57.9**	–	**–**	
	– Fellow subsidiary	**–**	63.3	**–**	
	Insurance provisions	**19.6**	16.7	**–**	
		216.3	207.4	**1.9**	

for the year ended 31 March 2005

		Group		Company	
		2005	2004	**2005**	2004
		Rm	Rm	**Rm**	Rm
16.	**OVERDRAFTS AND SHORT-TERM INTEREST-BEARING BORROWINGS**				
	The facilities are secured by a cessation of the debtors book of the Group main subsidiary, Lewis Stores (Pty) Ltd of R2 397.2 million and suretyships from the Lewis Stores subsidiaries in the foreign territories. The average closing rate on these borrowings was 8.2%.	**172.0**	–	**–**	
		172.0	–	**–**	
	Subsequent to year-end, the cession of the debtors book and suretyships were released by the bankers.				
17.	**REVENUE**				
	Merchandise sales	**1 351.9**	1 190.4	**–**	
	Finance charges earned	**605.0**	602.1	**–**	
	Insurance premiums earned	**357.9**	332.7	**–**	
	Fees for services rendered	**196.7**	149.5	**–**	
		2 511.5	2 274.7	**–**	
18.	**COST OF SALES**				
	Merchandise cost of sales	**907.5**	790.7	**–**	
	Outward re-insurance premiums	**143.4**	128.9	**–**	
		1 050.9	919.6	**–**	
19.	**BAD DEBTS AND IMPAIRMENT PROVISION**				
	Bad debts, bad debt recoveries and repossession losses	**125.3**	131.2	**–**	
	Movement in impairment provision	**(23.7)**	(16.1)	**–**	
		101.6	115.1	**–**	
20.	**LEASE COMMITMENTS**				
	The Group leases the majority of its properties under operating leases. The lease agreements of certain store premises provide for a minimum annual rental payment and additional payments determined on the basis of turnover.				
	The minimum future operating lease commitments are due as follows:				
	Within one year	**67.2**	67.1	**–**	
	Two to five years	**99.5**	104.0	**–**	
	In more than five years	**0.9**	0.9	**–**	
	The minimum property operating lease commitments are	**167.6**	172.0	**–**	

		Group		Company	
		2005	2004	**2005**	2004
		Rm	Rm	**Rm**	Rm
21.	**OPERATING PROFIT IS STATED AFTER**				
	Surplus on disposal of property, plant and equipment	**(4.7)**	(3.1)	**–**	
	Amortisation of negative goodwill	**–**	(1.0)	**–**	
	Depreciation				
	Owned assets	**32.7**	32.4	**–**	
	Leased assets	**4.6**	6.3	**–**	
		37.3	38.7	**–**	
	Fees payable:				
	Investment management fee – insurance investments	**1.2**	1.1	**–**	
	Outsourcing of IT function	**22.9**	24.6	**–**	
		24.1	25.7	**–**	
	Management fee to ultimate holding company	**–**	1.1		
	Operating lease charges – premises	**72.0**	67.1	**–**	
	Staff costs (refer note 14.2)	**409.4**	367.8	**–**	
	Auditors' remuneration				
	Audit fees – current year	**0.8**	0.5	**0.1**	
	– prior year underprovision	**0.1**	–	–	
	Other services	**0.7**	0.1	**–**	
		1.6	0.6	**0.1**	
	Directors' emoluments				
	Fees			**0.5**	
	Paid by subsidiary:				
	Remuneration and bonus			**3.0**	
	Other benefits			**0.1**	
	Retirement benefits			**0.2**	
				3.8	
22.	**INVESTMENT INCOME**				
	Interest – insurance business	**31.3**	32.2	**–**	
	Dividends from listed investments – insurance business	**3.5**	3.9	**–**	
	Realised profit on disposal of insurance investments	**2.8**	2.3	**–**	
	Impairment of available-for-sale investments	**–**	(1.4)	**–**	
	Unrealised fair value adjustments	**8.3**	(2.1)	**–**	
	Dividends – unlisted subsidiaries	**–**	–	**63.6**	
		45.9	34.9	**63.6**	

for the year ended 31 March 2005

		Group		Company	
		2005	2004	**2005**	2004
		Rm	Rm	**Rm**	Rm
23.	**NET FINANCE COSTS**				
23.1	**Interest paid/payable**				
	Capitalised finance leases	**0.9**	1.4	**–**	
	Fellow subsidiary	**32.8**	136.2	**–**	
	Bank loans, overdrafts and other	**16.9**	14.6	**–**	
	Forward exchange contracts	**4.2**	2.9	**–**	
		54.8	155.1	–	
23.2	**Interest earned**				
	Bank	**12.0**	13.2	**–**	
	Other	**0.1**	0.2	**–**	
		12.1	13.4	**–**	
		42.7	141.7	**–**	
24.	**TAXATION**				
24.1	**Taxation charge**				
	South Africa	**172.3**	101.8	**–**	
	Foreign	**11.7**	9.7	**–**	
	Taxation per income statement	**184.0**	111.5	**–**	
	Comprising:				
	Normal taxation				
	Current year	**215.8**	150.5	**–**	
	Prior year	**29.2**	8.1	**–**	
	Deferred taxation				
	Current year	**(38.0)**	(27.2)	**–**	
	Prior year	**(28.9)**	(19.9)	**–**	
	Secondary Tax on Companies	**5.9**	–	**–**	
	Taxation per income statement	**184.0**	111.5	**–**	
24.2	**The rate of taxation on profit is reconciled as follows:**				
	Profit before taxation	**592.9**	398.8	**–**	
	Taxation calculated at a tax rate of 30%	**177.9**	119.7	**–**	
	(Exempt income)/disallowed expenditure	**(0.1)**	3.7	**–**	
	Secondary Tax on Companies	**5.9**	–	**–**	
	Prior years	**0.3**	(11.9)	**–**	
	Taxation per income statement	**184.0**	111.5	**–**	
	Effective taxation rate	**31.0%**	28.0%	**–**	

25. EARNINGS PER SHARE

The calculation of earnings per share and fully diluted earnings per share is based on earnings of R408.9 million (2004 – R287.3million) and weighted average ordinary shares in issue of 100 million (2004 – 100 million).

The calculation of headline earnings per share and fully diluted headline earnings per share is based on headline earnings of R404.3 million (2004 – R287.6 million) and weighted average ordinary shares in issue of 100 million (2004 – 100 million).

The calculation of headline earnings is as follows:

	Profit before tax Rm	Tax Rm	Net attributable profit Rm
2005			
Per the income statement	**592.9**	**(184.0)**	**408.9**
Adjustments:			
Profit on disposal of property, plant and equipment	**(4.7)**	**1.5**	**(3.2)**
Profit on disposal of available-for-sale assets	**(1.6)**	**0.2**	**(1.4)**
	586.6	**(182.3)**	**404.3**
2004			
Per the income statement	398.8	(111.5)	287.3
Adjustments:			
Profit on disposal of property, plant and equipment	(3.1)	0.9	(2.2)
Negative goodwill raised	(1.0)	–	(1.0)
Loss on disposal/impairment of available-for-sale assets	3.5	–	3.5
	398.2	(110.6)	287.6

	Group		Company	
	2005 Rm	2004 Rm	**2005 Rm**	2004 Rm
26. DIVIDENDS PER SHARE				
An interim dividend of 61 cents per share was paid on 31 January 2005 to shareholders registered on 28 January 2005	**61.0**	–	**61.0**	
	61.0	–	**61.0**	
27. NOTES TO THE CASH FLOW STATEMENTS				
27.1 **Cash flow from trading**				
Operating profit	**589.7**	505.6	**(2.4)**	
Adjusted for:				
Depreciation and amortisation	**37.3**	37.7	**–**	
Profit on sale of property, plant and equipment	**(4.7)**	(3.1)	**–**	
Debtors impairment provision	**(23.7)**	(16.1)	**–**	
Movement in retirement benefits provision	**0.6**	2.3	**–**	
Movement in other provisions	**11.5**	9.5	**–**	
	610.7	535.9	**(2.4)**	

for the year ended 31 March 2005

		Group		Company	
		2005	2004	**2005**	2004
		Rm	Rm	**Rm**	Rm
27.	**NOTES TO THE CASH FLOW STATEMENTS (continued)**				
27.2	**Working capital movement**				
	Increase in inventories	**(5.5)**	(28.9)	**–**	
	Decrease/(increase) in trade and other receivables	**21.9**	(28.6)	**–**	
	(Decrease)/increase in trade and other payables	**(1.9)**	30.5	**1.9**	
		14.5	(27.0)	**1.9**	
27.3	**Taxation paid**				
	Amount owing at the beginning of the year	**(82.4)**	(23.0)	**–**	
	Amount charged to the income statement	**(184.0)**	(111.5)	**–**	
	Adjustment for deferred taxation	**(66.9)**	(47.1)	**–**	
	Amount owing at the end of the year	**125.6**	82.4	**–**	
		(207.7)	(99.2)	**–**	
27.4	**Acquisition of subsidiary company**				
	In anticipation of the listing, Lewis Group Limited acquired the entire share capital of Lewis Stores (Pty) Ltd from the GUS PLC Group and, in return, issued its entire share capital to the GUS PLC Group. The shares were issued at the initial public offering price of R28 per share and the effect of the transaction was to interpose Lewis Group Limited as the holding company. No cash flows were involved.				
	Effective 7 October 2003 Lewis Group acquired 100% of the equity in Lifestyle Living (Pty) Ltd. The fair value of the assets and liabilities at the date Lifestyle became a subsidiary are as follows:				
	Assets				
	Property, plant and equipment	**–**	(1.4)	**–**	
	Trade and other receivables	**–**	(24.9)	**–**	
	Inventory	**–**	(8.8)	**–**	
	Liabilities				
	Deferred taxation	**–**	3.0	**–**	
	Trade and other payables	**–**	8.3	**–**	
	Bank overdraft	**–**	15.6	**–**	
	Net asset value acquired	**–**	(8.2)	**–**	
	Negative goodwill	**–**	5.2	**–**	
	Purchase price	**–**	(3.0)	**–**	
	Cash and cash equivalents on acquisition	**–**	(15.6)	**–**	
	Net cash outflow	**–**	(18.6)	**–**	

	Group		Company	
	2005	2004	**2005**	2004
	Rm	Rm	**Rm**	Rm
27.5 **Cash and cash equivalents**				
Cash on hand and deposits	**55.3**	358.8	**–**	
Overdrafts and short-term interest-bearing borrowings	**(172.0)**	–	**–**	
Cash and cash equivalents	**(116.7)**	358.8	**–**	

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 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. The Lewis Group does not consider there to be any significant concentrations of credit risk which have not been provided for.

28.2 Interest rate risk management

Interest rate risk on interest-bearing instruments (held-for-trading) 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.

	Term of Investment	Average closing effective interest rate %	Floating or fixed	Carrying Value Rm
2005				
Assets				
Gross instalment sale and loan receivables	Up to 2 years	27.0%	Fixed	2 677.1
Liabilities				
Finance leases	3 years	7.0%	Floating	8.9
Overdrafts and short-term borrowings	Varies (refer note 16)	8.2%	Floating	172.0
2004				
Assets				
Gross instalment sale receivables	Up to 2 years	23.0%	Fixed	2 630.4
Liabilities				
Finance leases	3 years	8.0%	Floating	14.9
GUS Group loan	No fixed terms of repayment	13.0%	Floating	1 141.1

28. FINANCIAL RISK MANAGEMENT (continued)

28.3 Foreign exchange risk management

During the year, 8% (2004 – 8%) 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's	Rand equivalent Rm	Fair value (gain)/loss Rm
2005					
US dollar	Less than 4 months	Rates vary from R6.13 to R6.18	1.3	8.2	0.1
2004					
US dollar	Less than 3 months	Rates vary from R6.27 to R6.94	0.5	3.3	(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.

Net investment in foreign entities

The currency exposure to net investments in foreign entities is limited to the net investment in Botswana of R94.2 million (2004 – R82.4 million), which includes a long-term loan account. The foreign currency exposure is managed by keeping the net investment at a minimum practical level by remitting cash flow to South Africa on a regular basis.

28.4 Liquidity risk

	2005 Rm	2004 Rm
Total banking facilities	**900.0**	530.0
Less: drawn portion of facility	**(172.0)**	–
Plus cash on hand	**55.3**	358.8
Available cash resources and facilities	**783.3**	888.8

28.5 Maturity profile of financial instruments

The maturity profiles of financial instruments at 31 March 2005 are as follows:

	Average closing rate of interest %	0 – 12 months	2 – 5 years	>5 years	Total
Assets					
Available-for-sale insurance investments	–	–	56.5	115.1	171.6
Held-for-trading insurance investments	11.6%	229.0	–	–	229.0
Held-to-maturity insurance investments	7.4%	105.2	–	–	105.2
Trade and other receivables **	27.0%	1 750.6	–	–	1 750.6
Cash on hand and deposits	5.8%	55.3	–	–	55.3
Liabilities					
Interest-bearing borrowings	7.0%	(7.2)	(1.7)	–	(8.9)
Bank overdrafts and short-term borrowings	8.2%	(172.0)	–	–	(172.0)
Trade and other payables	–	(216.3)	–	–	(216.3)
		1 744.6	54.8	115.1	1 914.5

** 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 receivables range from 6 – 24 months.

28.6 **Maturity profile of financial instruments – continued**

On 31 March 2005 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 R47.7 million (2004 – R28.3 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 7.4 million capital guarantee effective if the investment is held to 6 November 2007.

	Group		Company	
	2005	2004	**2005**	2004
	Rm	Rm	**Rm**	Rm
29. RELATED PARTY INFORMATION				
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 **Balances owing to related entities**				
Controlling shareholder	**–**	2.7	**–**	
Common controlled entity:				
Loan (refer note 12)	**–**	1 141.1	**–**	
Amounts payable	**–**	59.2	**–**	
29.2 **Dealings with directors**				
Refer to note 21.				
29.3 **Amounts attributable to transactions with related entities**				
Income				
Re-insurance commission received from: common-controlled entity (commission arising from the re-insurance business written)	**41.1**	102.8	**–**	
Claims recoveries received: common-controlled entity (in accordance with the proportional re-insurance arrangement)	**–**	15.6	**–**	
IPO fee recovery (controlling entity)	**13.7**	–	**–**	
Expenses				
Administration fees paid to: controlling entity	**–**	1.1	**–**	
Interest paid to: common-controlled entity	**32.8**	136.2	**–**	
Re-insurance premium paid to: common-controlled entity (proportional re-insurance of 40% of gross premiums written in respect of customer protection insurance)	**–**	128.9	**–**	

for the year ended 31 March 2005

	Group		Company	
	2005 Rm	2004 Rm	**2005 Rm**	2004 Rm
30. CONTINGENCIES				
Bank and other guarantees given by the Group to third parties	**5.1**	55.7	**–**	
The directors are of the opinion that no loss will be incurred on these guarantees.				

31. CAPITAL COMMITMENTS

There were no material capital commitments contracted for or authorised and contracted at the end of the year under review (2004 – R nil).

32. SEGMENTAL REPORTING

32.1 **By business unit**

	2005			2004		
	Furniture Rm	**Insurance Rm**	**Group Rm**	Furniture Rm	Insurance Rm	Group Rm
Revenue	**2 153.6**	**357.9**	**2 511.5**	1 942.1	332.6	2 274.7
Operating profit	**469.0**	**120.7**	**589.7**	400.5	105.1	505.6
Operating assets (1)	**2 073.9**	**510.1**	**2 584.0**	2 363.1	456.8	2 819.9
Operating liabilities	**137.3**	**79.0**	**216.3**	127.0	80.4	207.4
Capital expenditure	**37.4**	**–**	**37.4**	36.3	–	36.3
Depreciation	**37.3**	**–**	**37.3**	38.7	–	38.7
Amortisation of intangibles	**–**	**–**	**–**	(1.0)	–	(1.0)
Impairment charge	**–**	**–**	**–**	1.4	–	1.4

32.2 **Geographical**

	2005			2004		
	South Africa Rm	**Other Rm**	**Group Rm**	South Africa Rm	Other Rm	Group Rm
Revenue	**2 243.4**	**268.1**	**2 511.5**	2 026.6	248.1	2 274.7
Operating assets (1)	**2 320.0**	**264.0**	**2 584.0**	2 574.9	245.0	2 819.9
Capital expenditure	**35.0**	**2.4**	**37.4**	33.9	2.4	36.3
Amortisation of intangibles	**–**	**–**	**–**	(1.0)	–	(1.0)
Impairment charge	**–**	**–**	**–**	1.4	–	1.4

(1) Operating assets does not include deferred tax asset of R46.8 million.

Interest in **Subsidiary Companies**

for the year ended 31 March 2005

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

Shareholders' **Information**

Shareholders' spread as at 24 March 2005

	Number of shareholders		Number of shares	
	Total	%	Total	%
1 – 1 000 shares	1 573	58.65%	833 245	0.83%
1 001 – 10 000 shares	843	31.43%	2 844 999	2.85%
10 001 – 100 000 shares	199	7.42%	7 140 410	7.14%
100 001 – 1 000 000 shares	56	2.09%	16 748 780	16.75%
1 000 001 shares and over	11	0.41%	72 432 566	72.43%
	2 682	100.00%	100 000 000	100.00%

Distribution of shareholders as at 24 March 2005

	% of holding
Non-public:	
GUS Holdings BV	54.00%
Directors	0.01%
Public:	
Unit Trusts/Mutual Funds	15.98%
Pension Funds	11.97%
Insurance Companies	7.58%
Other	10.46%
	100.00%

Analysis of Shareholding as at 24 March 2005

Beneficial Holders	
GUS Holdings BV	54.0%
Public Investment Corporation	6.5%
Metropolitan (Holdings and Funds)	3.6%
Sanlam (Holdings and Funds)	3.5%
Morgan Stanley Investment Management (Funds)	3.0%
By Fund Manager	
Old Mutual Asset Managers	6.8%
Sanlam Investment Management	6.0%
Metropolitan Asset Managers	4.0%
Morgan Stanley Investment Management (UK)	3.7%

Shareholders' **Calendar**

Financial year-end	31 March 2005
Preliminary profit announcement	16 May 2005
Annual report	27 June 2005
Final dividend	declared 16 May 2005
Last day to trade "cum" the dividend	15 July 2005
Date trading commences "ex" dividend	18 July 2005
Record date	22 July 2005
Date of payment on	25 July 2005
Annual general meeting	5 August 2005
Interim profit announcement	mid-November 2005

Notice of **Annual General Meeting**

Lewis Group Limited

(Incorporated in the Republic of South Africa)
(Registration number: 2004/009817/06)
Share code: LEW
ISIN: ZAE000058236
("Lewis Group" or "the Company")

Notice is hereby given that the first annual general meeting of shareholders ("AGM") of the Lewis Group Limited for the year ended 31 March 2005 will be held at Investec Bank, 36 Hans Strijdom Avenue, Foreshore, Cape Town at 10:00 am on Friday, 5 August 2005. **Registration will start at 9:15 am.** The following business will be transacted and resolutions proposed, with or without modification:

1. **Ordinary resolution number 1**
   Approval of annual financial statements
   "Resolved that the audited annual financial statements of the Company and its subsidiaries for the year ended 31 March 2005 accompanying this notice be accepted and approved."

2. **Ordinary resolution number 2**
   Election of directors
   Mr Alan James Smart and David Alan Tyler retire in accordance with the Company's Articles of Association. David Alan Tyler is not available for re-election but Mr Alan James Smart being eligible, offers himself for re-election.

   Alan James Smart (60) – Brief CV on page 6.

   Appointment of Alan James Smart as director
   "Resolved that Alan James Smart, be and is hereby elected as director of the Company."

3. **Ordinary resolution number 3**
   Approval of directors' remuneration for the year ended 31 March 2005
   "Resolved that the remuneration of the directors for the year ended 31 March 2005 as reflected on page 69 to the financial statements, accompanying the notice of annual general meeting are hereby approved and ratified in so far as may be necessary."

4. **Ordinary resolution number 4**
   Approval of directors' fees for the year ended 31 March 2006
   "Resolved that the fees of the directors as reflected below be approved for the year to 31 March 2006.

   Board

Chairman	R175 000
Director	R100 000

   If a member of the audit and risk committee the following additional amount:

Chairman	R100 000
Member	R25 000

   If a member of the remuneration and nomination committee the following additional amount:

Chairman	R25 000
Member	R15 000."

5. **Ordinary resolution number 5**
   Approval of re-appointment of auditors
   "Resolved that PricewaterhouseCoopers Inc are hereby re-appointed as auditors of the Company for the ensuing year."

6. **Ordinary resolution number 6**
   Place 10 million unissued shares under the control of the directors
   "Resolved that 10 000 000 (ten million) of the unissued authorised shares in the Company be and are hereby placed under the control of the directors as a general authority until the next annual general meeting and that they be and are hereby authorised to allot and issue such shares in the Company upon such terms and conditions as the directors in their sole discretion deem fit, subject to the Companies Act (Act 61 of 1973), as amended ("the Companies Act"), the Articles of Association of the Company and the JSE Securities Exchange South Africa ("JSE") Listings Requirements and the condition that no issue of these shares will be made if it could have the effect of changing the control of the Company."

7. **Ordinary resolution number 7**
   General authority to issue shares for cash
   "Resolved that subject to 75% (seventy-five percent) of the votes cast by those shareholders of the Company and present in person or represented by proxy to vote at this annual general meeting voting in favour of this resolution, the directors of the Company be and are hereby authorised by way of general authority to issue all or any of 10 000 000 (ten million) authorised but unissued shares in the Company for cash, as and when they in their discretion deem fit, subject to the Companies Act (Act 61 of 1973) as amended, the Articles of Association of the Company and the JSE Listings Requirements."

   Additional information required by the JSE Listings Requirements
   It is recorded that the Company may only make an issue of shares for cash under the above general authority if the following JSE Listings Requirements are met:

   - the securities which are the subject of the issue for cash must be of a class already in issue, or where this is not the case, must be limited to such securities or rights that are convertible into a class already in issue;
   - the general authority shall only be valid until the Company's next annual general meeting provided that it shall not extend beyond 15 (fifteen) months from the date of passing of this ordinary resolution;
   - a paid press announcement be published giving full details, including the average discount to the weighted average traded price of the shares over the 30 (thirty)

days prior to the date that the price of the issue was determined or agreed by the directors of the Company and the expected effect on the net asset value, net tangible asset value per share and earnings per share, at the time of any issue representing, on a cumulative basis within 1 (one) financial year, 5% (five percent) or more of the number of shares in issue prior to the issue;

- that issues in the aggregate in any 1 (one) financial year may not exceed 15% (fifteen percent) of the number of shares in the Company's issued share capital of the class of shares issued before such issue taking into account the dilution effect of convertible securities and options in accordance with the JSE Listings Requirements;
- in determining the price at which an issue of shares may be made in terms of this authority, the maximum discount permitted will be 10% (ten percent) of the weighted average traded price on the JSE of those shares over the 30 (thirty) business days prior to the date that the price of the issue is determined or agreed by the directors of the Company; and
- that any such issue will only be made to "public shareholders" as defined by the JSE Listings Requirements and not to related parties except where approved by the shareholders.

8. **Ordinary resolution number 8**
General authority for payments to shareholders
"Resolved that the Company be and is hereby granted a general authority authorising the Company to, in addition to any dividends that may be declared, make other payments to its shareholders from time to time in terms of Section 90 of the Companies Act, (Act 61 of 1973), as amended, and in terms of the Listings Requirements of the JSE Securities Exchange South Africa ("JSE") in such amount and in such form as the directors may in their discretion from time to time determine."

The above authority is subject to the following JSE Listings Requirements:

1. such general authority shall be valid only until the next annual general meeting of the Company or the expiry of a period of 15 (fifteen) months from the date of this resolution, whichever occurs first;
2. such payments may not, in the aggregate, exceed 20% (twenty percent) of the Company's issued share capital, including reserves but excluding minority interests, and revaluations of assets and intangible assets that are not supported by a valuation by an independent professional expert acceptable to the JSE prepared within the last 6 (six) months, in any one financial year, measured as at the beginning of such financial year; and
3. such payments shall be made pro rata to all shareholders.

Statement by the Board of directors of the Company
Pursuant to and in terms of the JSE Listings Requirements the Board of directors of the Company hereby state that:

(a) the intention of the directors of the Company is to utilise the general authority to make distributions to members if it is desirable to make distributions out of the share premium of the Company, the cash resources of the Company are in excess of its requirements or there are other good grounds for doing so. In this regard the directors will take account of, *inter alia*, an appropriate capitalisation structure for the Company, the long-term cash needs of the Company, and the interests of the Company;

(b) in determining the payments which the Company intends to make to shareholders of the Company, the directors of the Company will only make a payment if at the time of the payment they are of the opinion that:

- the Company and its subsidiaries ("the Group") will be able in the ordinary course of business to pay its debts for a period of 12 (twelve) months after the date of the payment;
- the consolidated assets of the Company and its subsidiaries, fairly valued and recognised and measured in accordance with the accounting policies used in the latest audited financial statements, will, after the payment, be in excess of the consolidated liabilities of the Company and its subsidiaries for the next 12 (twelve) months after the date of payment;
- the issued share capital and reserves of the Company and the Group will be adequate for the ordinary business purposes of the Company and the Group for the next 12 (twelve) months after the date of payment; and
- the working capital of the Company and the Group will be adequate for ordinary business purposes for a period of 12 (twelve) months after the date of payment.

9. **Special resolution number 1**
General authority to repurchase Company shares
"Resolved that the Company hereby approves, as a general approval contemplated in Sections 85 and 89 of the Companies Act (Act No. 61 of 1973), as amended, ("the Companies Act"), the acquisition by the Company or any of its subsidiaries from time to time of the issued shares of the Company, upon such terms and conditions and in such amounts as the directors of the Company may from time to time determine, but subject to the Articles of Association of the Company and the provisions of the Companies Act and if and for so long as the shares of the Company are listed on the JSE, subject also to the JSE Listings Requirements as presently constituted and which may be amended from time to time."

Additional information required by the JSE Listings Requirements

It is recorded that the Company or any of its subsidiaries shall only be authorised to make a general acquisition of shares on such terms and conditions that the directors deem fit, provided that the following requirements of the Listings Requirements of the JSE, as presently constituted, and which may be amended from time to time, are met:

- any such acquisition of shares shall be affected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the Company and the counter party (reported trades are prohibited) or other manner approved by the JSE;
- this general authority shall only be valid until the Company's next annual general meeting, provided that it shall not extend beyond 15 (fifteen) months from the date of passing of this special resolution;
- a paid press announcement will be published as soon as the Company and/or its subsidiaries has/have acquired shares constituting, on a cumulative basis, 3% (three percent) of the number of shares of the class of shares repurchased in issue at the time of granting of this general authority, and each time the Company acquires a further 3% (three percent) of such shares thereafter, which announcement shall contain full details of such acquisitions;
- acquisitions by the Company and its subsidiaries of shares in the capital of the Company may not, in the aggregate, exceed in any one financial year 20% (twenty percent) (or 10% (ten percent) where such acquisitions relate to the acquisition by a subsidiary) of the Company's issued share capital of the class of the repurchased shares from the date of the grant of this general authority;
- in determining the price at which the Company's shares are acquired by the Company or its subsidiaries in terms of this general authority, the maximum premium at which such shares may be acquired may not be greater than 10% (ten percent) above the weighted average of the market price at which such shares are traded on the JSE for the 5 (five) business days immediately preceding the date the repurchase transaction is affected; and
- in the case of a derivative (as contemplated in the Listings Requirements of the JSE) the price of the derivative shall be subject to the limits set out in Section 5.84(a) of the Listings Requirements of the JSE.

Statement by the Board of Directors of the Company

Pursuant to and in terms of the JSE Listings Requirements the Board of directors of the Company hereby state that:

(a) the intention of the directors is to utilise the general authority to acquire shares in the Company if at some future date the cash resources of the Company are in excess of its requirements or there are other good grounds for doing so. In this regard the directors will take account of, *inter alia*, an appropriate capitalisation structure for the Company, the long-term cash needs of the Company, and the interests of the Company;

(b) in determining the method by which the Company intends to acquire its shares, the number of shares to be acquired at such time and the date on which such acquisition will take place, the directors of the Company will only make acquisitions if at the time of the acquisition they are of the opinion that:

- the Company and its subsidiaries will, after the acquisition, be able to pay their debts as they become due in the ordinary course of business for the next 12 (twelve) months after the date of acquisition;
- the consolidated assets of the Company and its subsidiaries, fairly valued and recognised and measured in accordance with the accounting policies used in the latest audited financial statements, will, after the acquisition, be in excess of the consolidated liabilities of the Company and its subsidiaries for the next 12 (twelve) months after the date of acquisition;
- the issued share capital and reserves of the Company and its subsidiaries will, after the acquisition, be adequate for the ordinary business purposes of the Company or its subsidiaries for the next 12 (twelve) months after the date of acquisition; and
- the working capital available to the Company and its subsidiaries will, after the acquisition, be sufficient for ordinary business purposes of the Company for the next 12 (twelve) months after the date of acquisition;

c) if and for so long as the shares in the Company are listed on the JSE, they will not make any acquisition until such time as the Company's sponsors have provided the JSE with a letter in relation to the working capital statement set out above.

Reason for and effect of special resolution number 1

The reason for special resolution number 1 is to grant the Company a general authority in terms of the Companies Act for the acquisition by the Company or any of its subsidiaries of shares issued by the Company or its holding company, which authority shall be valid until the earlier of the next annual general meeting of the Company or the variation or revocation of such general authority by special resolution by any subsequent general meeting of the Company, provided that the general authority shall not extend beyond 15 (fifteen) months from the date of this annual general meeting. The passing and registration of this special resolution will have the effect of authorising the Company or any of its

subsidiaries to acquire shares issued by the Company or its holding company.

10 **To transact such other business that may be transacted at an annual general meeting.**

11 **Ordinary resolution number 9**

Directors' authority to implement Company resolutions

"Resolved that each and every director of the Company be and is hereby authorised to do all such things and sign all such documents as may be necessary for or incidental to the implementation of the resolutions passed at this meeting."

General instructions and information

The annual report to which this notice of this annual general meeting is attached provides details of:

- the directors and managers of the Company on pages 6 to 7 and pages 14 to 16;
- the major shareholders of the Company on page 78;
- the directors' shareholding in the Company on page 50; and
- the share capital of the Company in note 9 on page 63 and an analysis of the shareholders on page 78.

There are no material changes to the Group's financial or trading position, nor are there any material, legal or arbitration proceedings that may affect the financial position of the Group between 31 March 2005 and the reporting date.

The directors, whose names are given on pages 6 to 7 of the annual report collectively and individually accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the annual report and this notice contains all information required by law and the JSE Listings Requirements.

All shareholders are encouraged to attend, speak and vote at the annual general meeting.

If you hold certificated shares (i.e. have not dematerialised your shares in the Company) or are registered as an own name dematerialised shareholder (i.e. have specifically instructed your Central Securities Depository Participant ("CSDP") to hold your shares in your own name in the Company sub-register) then:

- you may attend and vote at the annual general meeting; alternatively
- you may appoint a proxy to represent you at the annual general meeting by completing the attached form of proxy and returning it to the Company's Transfer Secretary (Computershare Investor Services 2004 (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 (P O Box 61051, Marshalltown, 2017)) or lodging it at the registered office of the Company by no later than 24 hours prior to the time appointed for the holding of the meeting.

Please note that if you are the owner of dematerialised shares (i.e. have replaced the paper share certificates representing the shares with electronic records of ownership under the JSE's electronic settlement system, Share Transactions Totally Electronic ("STRATE")) held through a CSDP or broker (or their nominee) and are not registered as an "own name dematerialised shareholder" then you are not a registered shareholder of the Company, your CSDP or broker (or their nominee) would be. Accordingly, in these circumstances, subject to the mandate between yourself and your CSDP or broker as the case may be:

- if you wish to attend the annual general meeting you must contact your CSDP or broker, as the case may be, and obtain the relevant letter of representation from it; alternatively
- if you are unable to attend the annual general meeting but wish to be represented at the meeting, you must contact your CSDP or broker, as the case may be, and furnish it with your voting instructions in respect of the annual general meeting and/or request it to appoint a proxy. You must not complete the attached form of proxy. The instructions must be provided in accordance with the mandate between yourself and your CSDP or broker, as the case may be, within the time period required by your CSDP or broker, as the case may be.
- CSDPs, brokers or their nominees, as the case may be, recorded in the Company's sub-register as holders of dematerialised shares held on behalf of an investor/beneficial owner in terms of STRATE should, when authorised in terms of their mandate or instructed to do so by the owner on behalf of whom they hold dematerialised shares in the Company, vote by either appointing a duly authorised representative to attend and vote at the annual general meeting or by completing the attached form of proxy in accordance with the instructions thereon and returning it to the Company's Transfer Secretary (Computershare Investor Services 2004 (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 (P O Box 61051, Marshalltown, 2017)) or lodging it at the registered office of the Company not less than 24 hours prior to the time appointed for the holding of the meeting.

By order of the Board

PB CROUCHER
Company Secretary

16 May 2005

Proxy **Form**

Lewis Group Limited
(Incorporated in the Republic of South Africa)
(Registration number: 2004/009817/06)
Share code: LEW ISIN: ZAE000058236
("Lewis Group" or "the Company")

For use at the annual general meeting of the Company to be held at Investec Private Bank, 36 Hans Strijdom Avenue, Foreshore, at 10:00 on Friday, 5 August 2005 ("the annual general meeting").

Not to be used by beneficial holders of shares who have dematerialised their shares ("dematerialised shares") through a Central Securities Depository Participant ("CSDP") or broker, as the case may be, unless you are recorded on the sub-register as an "own name" dematerialised shareholder ("own name dematerialised shareholder"). Generally, you will not be an own name dematerialised shareholder unless you have specifically requested the CSDP to record you as the holder of the shares in your own name in the Company's sub-register.

Only for use by certificated, own name dematerialised shareholders and CSDP's or brokers (or their nominees) registered in the Company's sub-register as the holder of dematerialised ordinary shares.

Each shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies (none of whom need be a shareholder of the Company) to attend, speak and vote in place of that member at the annual general meeting, and at any adjournment thereafter.

I/We, (block letters)

Of (address)

Telephone: (Work) Telephone: (Home)

Being the holder/s of ordinary shares in the Company, hereby appoint (see instructions overleaf)

1. or failing him/her

2. or failing him/her

3. the chairperson of the annual general meeting, as my/our proxy to attend, speak and vote (or abstain from voting) and act for me/us and on my/our behalf at the annual general meeting which will be held for the purpose of considering and if deemed fit passing, with or without modification, the resolutions to be proposed thereat and at any adjournment thereof and to vote for or against such resolutions or to abstain from voting in respect of the shares in the issued capital of the Company registered in my/our name/s in accordance with the following instructions (see instruction overleaf).

	Insert an "X"		
	In favour of	Against	Abstain
Ordinary resolution 1 Approval of annual financial statements			
Ordinary resolution 2 Election of Mr Alan James Smart as director			
Ordinary resolution number 3 Approval of directors' remuneration for the year 31 March 2005			
Ordinary resolution number 4 Approval of directors' fees for the year to 31 March 2006			
Ordinary resolution number 5 Approval of re-appointment of auditors			
Ordinary resolution number 6 Place 10 million unissued shares under the control of directors			
Ordinary resolution number 7 General authority to issue 10 million shares for cash			
Ordinary resolution number 8 General authority for payments to shareholders			
Special resolution number 1 Authority to repurchase Company shares			
Ordinary resolution number 9 General authorisation of directors			

Insert an "X" in the relevant spaces above according to how you wish your votes to be cast. If you wish to cast your votes in respect of a lesser number of shares than you own in the Company, insert the number of shares held in respect of which you desire to vote (instruction overleaf).

Signed at on 2005

Signature/s

(Authority of signatory to be attached of applicable – see instruction overleaf)

Assisted by

(where applicable)

Telephone number:

Please read the notes on reverse side.

Instructions on signing and lodging the proxy form:

1. A certificated or own name dematerialised shareholder or CSDP or broker registered in the Company's sub-register may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space/s provided, with or without deleting "the chairman of the annual general meeting", but any such deletion must be initialled by the shareholder. The person whose name stands first on the proxy form and who is present at the annual general meeting will be entitled to act as a proxy to the exclusion of those whose names follow thereafter. If no proxy is inserted in the spaces provided, then the chairperson shall be deemed to be appointed as the proxy to vote or abstain as the chairperson deems fit.

2. A shareholder's voting instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that shareholder in the appropriate box provided. If there is no clear indication as to the voting instructions to the proxy, the proxy will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of all the shareholder's votes exercisable thereat. A shareholder or his/her proxy is not obliged to use all the votes exercisable by the shareholder or by his/her proxy, but the total of the votes cast and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the shareholder or by his/her proxy.

3. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.

4. To be valid the completed proxy forms must be forwarded to reach the Company's Transfer Secretaries, Computershare Investor Services 2004 (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2017), or lodged with the company secretary to be received by no later than 10:00 on Thursday, 4 August 2005.

5. Documentary evidence establishing the authority of a person signing this proxy form in a representative capacity must be attached to this proxy form unless previously recorded by the Transfer Secretaries or waived by the chairman of the annual general meeting. CSDPs or brokers registered in the company's sub-register voting on instructions from owners of shares registered in the company's sub-sub-register, are requested that they identify the owner in the sub-sub-register on whose behalf they are voting and return a copy of the instruction from such owner to the company's secretary together with this form of proxy.

6. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders, for which purpose seniority will be determined by the order in which the names appear on the register of shareholders in respect of the joint holding.

7. The completion and lodging of this proxy form shall not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms thereof, should such member wish to do so.

8. The completion of any blank spaces overleaf need to be initialled. Any alterations or corrections to this proxy form must be initialled by the signatory/ies but may not be accepted by the chairperson.

9. The chairman of the annual general meeting may in his absolute discretion reject or accept any proxy form which is completed other than in accordance with these notes.

10. If required, additional forms of proxy are available from the secretary of the company.

11. Shareholders which are a company or body corporate may by resolution of their directors, or other governing body, authorise any person to act as their representative. The representative will be counted in the quorum and will be entitled to vote on a show of hands or on a poll.

Corporate Information

Lewis Group Limited:
"Lewis", "the Group" or "the Company"

Registration number:
2004/009817/06

ISIN:
ZAE000058236

Registered office:
53A Victoria Road, Woodstock, 7925

Postal address:
PO Box 43, Woodstock, 7915

Telephone number:
+27(21) 460-4400

Website:
www.lewisgroup.co.za

Transfer secretaries:
Computershare Investor Services 2004 (Pty) Ltd
70 Marshall Street, Johannesburg, 2001

Auditors:
PricewaterhouseCoopers Inc.

Corporate law advisers:
Sonnenberg Hoffmann Galombik

Principal bankers:
FNB Corporate
The Standard Bank of South Africa Limited
ABSA Corporate and Merchant Bank

Sponsor:
UBS South Africa (Pty) Ltd

Directors:
Executive: AJ Smart (Chief Executive Officer)
Non-executive: DM Nurek* (Chairman), H Saven*,
B van der Ross*, DA Tyler†
* Independent, † British

Company secretary:
PB Croucher

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Lewis
we are family

BEST ELECTRIC

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