Lewis Group Ltd

Unaudited Interim Results

for the six months ended 30 September 2007

Highlights

- Revenue up 11.2%
- Operating profit up 14.6%
- Operating margin 24.6% (2006: 23.9%)
- Earnings per share up 13.1%
- Headline EPS up 11%
- Dividend per share up 24.1%
- Debtors' book quality maintained

TRADING REVIEW

The Board is pleased to report that for the six months ended September 2007, the Group has once again experienced sustained growth and improved profitability.

Whilst there has been some slowing in household spending in response to the lagged effect of higher interest rates and petrol price increases, the Board believes that the long-term outlook remains positive, with overall growth supported by ongoing infrastructure spending by the public sector, employment growth and real wage increases.

The past six months have seen many developments affecting the retail furniture sector. Recent disclosures by industry players announcing the separation of retail and financial services has attracted significant comment.

Against this background the Board wishes to reaffirm one of the Group's strategic strengths – its customer centric business model. This business model is founded on a store-based customer focus where customer relationships are developed both at the time of the sale and throughout the whole of the contract period when customers visit stores to pay their accounts. This enables the Group to develop long-term relationships with its customers, resulting in a high level of repeat sales.

Whilst it is possible to account separately for retail and financial services, the Board believes that operationally the selling of furniture and the provision of credit are interdependent. Accordingly, the Lewis customer centric business model will be maintained in our stores.

The Group's prime merchandise strategy is to enhance the merchandise offering, attracting new customers and retaining existing customers through the re-serve scheme. This requires constant review of product and sourcing of new exclusive lines both locally and overseas that provide genuine value for money. This strategy has resulted in a change in the product mix over the last two years, with furniture sales accounting for 53% of total sales (2005: 48%).

Extended terms of 30 and 36 months have been offered to our top rated customers. This promotional tool will be used as circumstances dictate.

Cash sales at 32% of total sales have shown no material increase over the past three years, indicating that our customers' use of other credit facilities for big ticket items is unchanged.

The customer valuation models that were developed last year have been incorporated into the re-serve strategies, allowing for better customer segmentation and targeting of promotional offers. Initial results are very encouraging.

Stock levels are up on last year due to 24 new stores opening since 1 October 2006 and forward ordering of imported stock in anticipation of higher sales volumes. This has been corrected in the forward ordering for the second half of the year.

A further eleven new stores will open in the period October to December 2007, bringing the total of new stores for the current financial year to 22.

An electronic merchandise catalogue has been developed and is in the process of being installed in all stores. This user-friendly electronic catalogue will enable customers to view and particularly salespersons to offer the entire range of product, colour and fabric options together with pricing, terms, etc. This is an exciting development for the Group as we seek to improve sales efficiencies and contain costs.

FINANCIAL PERFORMANCE

Revenue increased by 11.2% to R1 718 million, with merchandise sales growth reflecting a 7.5% increase.

The Lewis chain (82% of Group sales) produced revenue growth of 10% and merchandise sales increase of 6%.

Best Electric (11% of Group sales) increased revenue by 17% and merchandise sales by 11%.

Lifestyle Living (7% of Group sales) increased revenue by 18% and merchandise sales by 12%.

Other revenue grew by 15.5%, with ancillary services increasing due to the recently introduced initiation fees and monthly service fees charged in terms of the National Credit Act ("NCA"). Finance charges earned reflects an increase of 7.7% as the NCA prohibits the levying of finance charges on insurance premiums.

The gross margin for the period was 34.1% (2007: 34.3%). This slight reduction is attributable to costs relating to strong promotional activity to retain and recruit new customers. During the six month period, 40 000 new and settled customers were activated.

Debtor costs at 3% of net debtors is at the same level as the prior period. This highlights the benefits of our stringent credit approval systems, decentralised debt collection process and the underlying quality of the debtors' book.

Operating expenses (excluding debtor costs) as a percentage of revenue is 36.2% compared to 36.1% last period. Operating profit grew by 14.6% to R423 million, with the operating margin increasing from 23.9% to 24.6%.

The financial performance has resulted in an increase of 13.1% in earnings per share and 11% in headline earnings per share. Return on equity and return on capital employed were 22.6% and 19.6% respectively.

Share repurchases remain a key component of the capital management strategy of the Group and at 30 September 2007, an additional 2.5% of shares in issue had been repurchased, bringing total repurchases to 10% of shares in issue at an average market price of R52.16 per share. The weighted average shares in issue are 90 million compared to 93 million last period.

The Board has resolved to reduce the dividend cover from 2.25 times to 2.0 times cover. Accordingly, an interim dividend of 144 cents per share has been declared, representing an increase of 24.1%. It is noteworthy that the Group, since listing three years ago, has returned R1.1 billion to shareholders in the form of dividends paid and share repurchases.

NATIONAL CREDIT ACT ("NCA")

The introduction of the NCA on 1 June 2007 has been successfully implemented.

The Group has for the past three years granted credit utilising an affordability calculation which almost exactly met the requirements of the NCA. The changes to the credit granting process were therefore minimal.

DEBTORS

The NCA requires finance charges and insurance to be charged on a monthly basis. Historically, the full amount for the period of the contract was included in debtors. Gross debtors' books are, therefore, not comparable. The Group now calculates its debtors' book percentages on the net debtors' book for the purposes of a meaningful comparison.

The overall debt provision of R419 million compares to R396 million for September 2006, an increase of 5.8%. The doubtful debt provision at 15.4% of net debtors reflects an improvement on the 16.9% for September 2006. In addition, when compared to March 2007, there has been no significant deterioration in the quality of the debts. A summary of the position is as follows:

	Sept 07	Sept 06	March 07	March 06
Doubtful debts as a percentage of net debtors	15.4%	16.9%	14.9%	16.5%

The provision increased by 0.5% since March 2007 from 14.9% to 15.4%. From March 2006 to September 2006, the movement was 0.4% (from 16.5% to 16.9%). This reflects the underlying quality of the book under more demanding conditions.

In anticipation of the NCA, information at the credit bureau has improved, enhancing our ability to make consistently accurate credit decisions. There has been no noticeable deterioration in the quality of customers applying for credit with Lewis.

Second generation behavioural scorecards have been developed for existing customers and will be implemented in November 2007, improving our risk decisions and related credit policies for repeat business.

CASH FLOW

Operating cash flows during the period have funded the following:

- Increased working capital requirements of R201 million.
- Share repurchases of R162 million.
- Dividends of R134 million.

Borrowings have increased by R242 million and the current gearing is 25.3% as compared to 17.1% in the last period. Gearing has increased in line with the group's capital management program.

PROSPECTS

Trading conditions in the medium term are expected to be tough, with food and transport inflation affecting the Group's target market. However, public infrastructural spend, overall job creation and real wage increases are encouraging.

The Board is confident that the group's proven operational and merchandise strategies will continue to produce satisfactory results.

DECLARATION OF INTERIM DIVIDEND NO. 7

Notice is hereby given that an interim dividend of 144 cents per share in respect of the six months ending 30 September 2007 has been declared payable to holders of ordinary shares.

The following dates are applicable:

Last date of trade "cum" dividend	Friday, 18 January 2008
Date trading commences "ex" dividend	Monday, 21 January 2008
Record date	Friday, 25 January 2008
Date of payment	Monday, 28 January 2008

Share certificates may not be dematerialised or rematerialised between Monday, 21 January 2008 to Friday, 25 January 2008, both days inclusive.

For and on behalf of the Board

David Nurek
Chairman

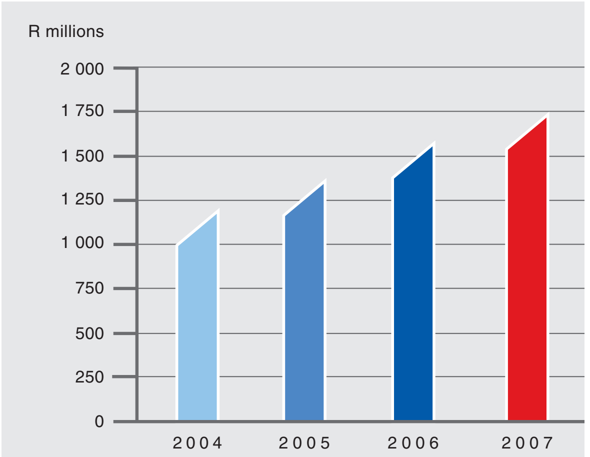
Alan Smart
Chief Executive Officer

Cape Town
12 November 2007

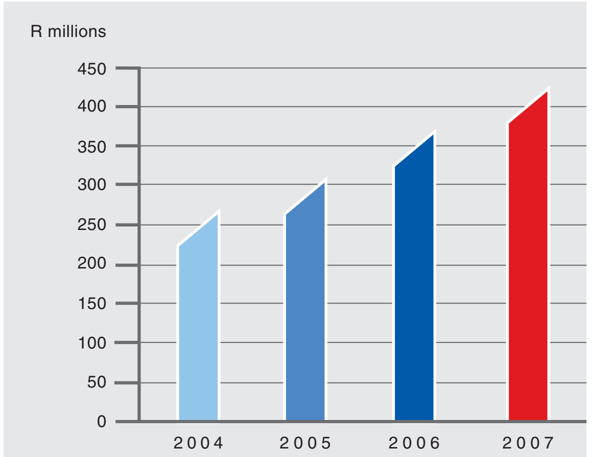
Executive directors:	AJ Smart (*Chief Executive Officer*), LA Davies (*Chief Financial Officer*)
Independent non-executive directors:	DM Nurek (*Chairman*), H Saven, BJ van der Ross, Professor F Abrahams
Company secretary:	PB Croucher
Registered office:	53A Victoria Road, Woodstock, 7925
Registration number:	2004/009817/06
Share code:	LEW
ISIN:	ZAE000058236
Transfer secretaries:	Computershare Investor Services 2004 (Pty) Ltd, 70 Marshall Street, Johannesburg, 2001 PO Box 61051, Marshalltown, 2107
Auditors:	PricewaterhouseCoopers Inc.
Sponsor:	UBS South Africa (Pty) Ltd

These results are also available on our website: www.lewisgroup.co.za

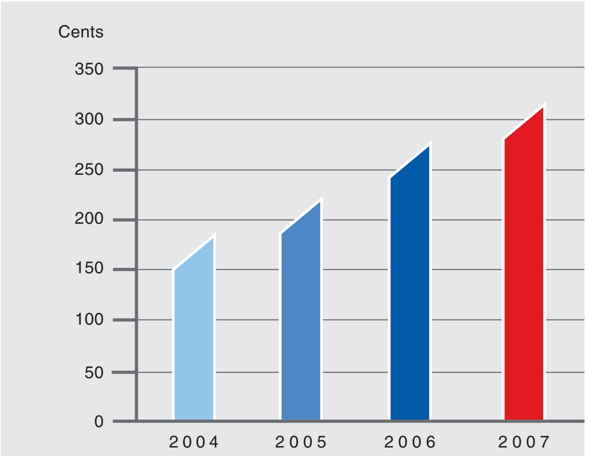
Revenue



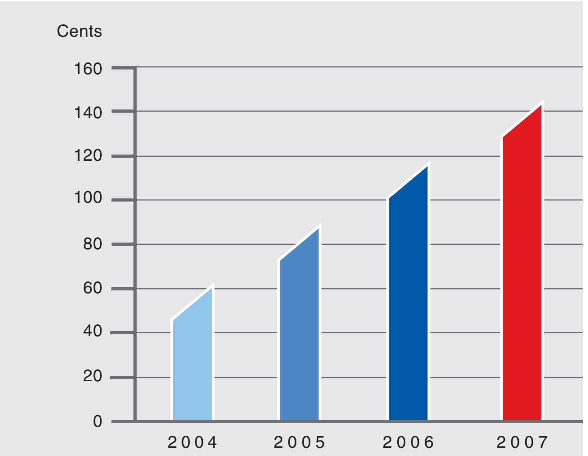
Operating profit



Headline earnings per share



Dividends



Based on normalised earnings. 2004 calculated in terms of SA GAAP.

Lewis · Best Electric · Lifestyle Living · Monarch Insurance Company Ltd.

INCOME STATEMENT

	Notes	6 months ended 30 Sept 2007 Rm Unaudited	% Change	6 months ended 30 Sept 2006 Rm Unaudited	12 months ended 31 Mar 2007 Rm Audited
Revenue		1 717.6	11.2	1 545.1	3 323.5
Merchandise sales		896.8		834.4	1 808.8
Finance charges earned		397.5		369.0	776.7
Insurance premiums earned		249.7		212.8	464.7
Ancillary services		173.6		128.9	273.3
Cost of merchandise sales	2	(590.6)		(548.2)	(1 194.0)
Operating costs		(704.4)		(628.1)	(1 269.6)
Employment costs		(265.0)		(238.5)	(485.6)
Administration and IT		(83.7)		(79.7)	(162.3)
Debtor costs	3	(82.7)		(70.7)	(147.9)
Marketing		(62.0)		(52.9)	(106.9)
Occupancy costs		(65.0)		(55.5)	(116.7)
Transport and travel		(60.7)		(54.8)	(109.2)
Depreciation		(25.4)		(23.0)	(38.9)
Other operating costs		(59.9)		(53.0)	(102.1)
Operating profit		422.6	14.6	368.8	859.9
Investment income		29.9		20.1	42.7
Profit before finance costs		452.5	16.4	388.9	902.6
Net finance (costs)/income	4	(25.2)		3.3	(12.4)
Profit before taxation		427.3	8.9	392.2	890.2
Taxation		(142.1)		(131.4)	(291.9)
Net profit attributable to ordinary shareholders		285.2	9.4	260.8	598.3
Reconciliation of headline earnings					
Net profit attributable to ordinary shareholders		285.2		260.8	598.3
Adjusted for					
Profit on disposal of property, plant and equipment		(2.4)		(2.4)	(3.8)
Disposal of available-for-sale assets		(6.7)		(0.3)	(1.6)
Taxation effect		1.7		0.7	1.3
Headline earnings		277.8	7.3	258.8	594.2
Number of ordinary shares ('000)					
In issue		99 158		100 000	100 000
Weighted average		90 056		93 100	92 062
Fully diluted weighted average		90 488		93 421	92 458
Earnings per share (cents)		316.7	13.1	280.1	649.9
Headline earnings per share (cents)		308.5	11.0	278.0	645.4
Fully diluted earnings per share (cents)		315.2		279.2	647.1
Fully diluted headline earnings per share (cents)		307.0		277.0	642.7

STATEMENT OF CHANGES IN EQUITY

	Share capital and premium Rm	Other reserves Rm	Distributable reserves Rm	Total Rm
Balance at 30 September 2006	311.5	111.7	1 824.2	2 247.4
Net profit attributable to ordinary shareholders	–	–	337.5	337.5
Fair value adjustments of available-for-sale investments, net of tax	–	43.4	–	43.4
Profit on disposal of available-for-sale investments recognised, net of tax	–	(1.1)	–	(1.1)
Share-based payment	–	2.6	–	2.6
Transfer of share-based payment reserve to retained income on vesting	–	(1.7)	1.7	–
Treasury shares purchased	(0.1)	–	–	(0.1)
Profit on sale of own shares	–	–	3.7	3.7
Transfer to contingency reserve	–	2.7	(2.7)	–
Foreign currency translation reserve movement	–	(1.1)	–	(1.1)
Dividends paid	–	–	(105.1)	(105.1)
Balance at 31 March 2007	311.4	156.5	2 059.3	2 527.2
Net profit attributable to ordinary shareholders	–	–	285.2	285.2
Fair value adjustments of available-for-sale investments, net of tax	–	(3.5)	–	(3.5)
Profit on disposal of available-for-sale investments recognised, net of tax	–	(6.7)	–	(6.7)
Share-based payment	–	3.1	–	3.1
Treasury shares purchased	(162.4)	–	–	(162.4)
Profit on sale of own shares	–	–	3.4	3.4
Transfer to contingency reserve	–	3.3	(3.3)	–
Foreign currency translation reserve movement	–	(1.0)	–	(1.0)
Dividends paid	–	–	(134.1)	(134.1)
Balance as at 30 September 2007	149.0	151.7	2 210.5	2 511.2

BALANCE SHEET

	Notes	30 Sept 2007 Rm Unaudited	30 Sept 2006 Rm Unaudited	31 Mar 2007 Rm Audited
ASSETS				
Non-current assets				
Property, plant and equipment		183.6	174.4	182.9
Investments – insurance business		492.8	495.9	461.1
Deferred taxation		68.4	98.7	102.9
		744.8	769.0	746.9
Current assets				
Investments – insurance business		187.1	133.9	199.3
Inventories		310.6	243.8	230.3
Trade and other receivables	5	2 327.9	1 989.1	2 187.7
Taxation		26.1	–	–
Cash on hand and deposits		57.8	33.9	35.7
		2 909.5	2 400.7	2 653.0
Total assets		3 654.3	3 169.7	3 399.9
EQUITY AND LIABILITIES				
Capital and reserves				
Shareholders' equity and reserves		2 511.2	2 247.4	2 527.2
Non-current liabilities				
Deferred taxation		22.3	16.7	25.4
Retirement benefits		69.3	77.6	67.6
		91.6	94.3	93.0
Current liabilities				
Trade and other payables	6	357.8	334.8	287.7
Taxation		–	75.9	61.7
Overdrafts and short-term interest-bearing borrowings		693.7	417.3	430.3
		1 051.5	828.0	779.7
Total equity and liabilities		3 654.3	3 169.7	3 399.9

SEGMENTAL REPORT

	6 months ended 30 Sept 2007 Rm Unaudited	6 months ended 30 Sept 2006 Rm Unaudited	12 months ended 31 Mar 2007 Rm Audited
BUSINESS GROUPING			
Revenue			
Merchandise	1 467.9	1 332.3	2 858.8
Insurance	249.7	212.8	464.7
Total	1 717.6	1 545.1	3 323.5
Operating profit			
Merchandise	345.1	279.8	676.5
Insurance	77.5	89.0	183.4
Total	422.6	368.8	859.9
GEOGRAPHICAL			
Revenue			
South Africa	1 534.5	1 382.4	2 982.9
Botswana, Lesotho, Namibia and Swaziland	183.1	162.7	340.6
Total	1 717.6	1 545.1	3 323.5

KEY RATIOS

	6 months ended 30 Sept 2007	6 months ended 30 Sept 2006	12 months ended 31 Mar 2007
Returns			
Return on average equity	22.6%	23.0%	24.8%
Return on average capital employed	19.6%	20.2%	22.5%
Margins			
Merchandise gross profit %	34.1%	34.3%	34.0%
Operating margin %	24.6%	23.9%	25.9%
Productivity ratios			
Number of stores at period-end	517	493	508
Revenue per store (average) (R'000s)	3 348	3 140	6 687
Operating profit per store (average) (R'000s)	824	750	1 730
Number of employees (average)	6 654	6 126	6 310
Revenue per employee (average) (R'000s)	258	252	527
Operating profit per employee (average) (R'000s)	64	60	136
Trading space (sqm)	217 215	211 362	215 076
Revenue per sqm (R)	7 908	7 310	15 453
Operating profit per sqm (R)	1 946	1 745	3 998
Stock turn (annualised)	4.0	4.5	5.2
Credit ratios			
Cash and short-term credit sales % of total sales	32.0%	31.5%	30.7%
Debtor costs as a % of the net instalment and loan receivables	3.0%	3.0%	5.8%
Doubtful debts provision as a % of net instalment and loan receivables	15.4%	16.9%	14.9%
Credit applications decline rate	21.6%	20.7%	20.1%
Solvency and liquidity			
Dividend cover	2.00	2.25	2.25
Gearing ratio	25.3%	17.1%	15.6%
Current ratios	2.8	2.9	3.4
Net asset value per share (cents)	2 834	2 470	2 774

Notes:

1. *All ratios are based on figures at the end of the period unless otherwise disclosed.*
2. *Debtors costs and doubtful debt provision are calculated on the net instalment and loan receivables as a consequence of the introduction of the National Credit Act. Comparatives have been restated on the new basis.*
3. *Revenue and operating profit per store are calculated on the average number of stores in the period. Accordingly, comparatives have been restated.*

ABRIDGED CASH FLOW STATEMENT

	Notes	6 months ended 30 Sept 2007 Rm Unaudited	6 months ended 30 Sept 2006 Rm Unaudited	12 months ended 31 Mar 2007 Rm Audited
Cash generated from operations	8	299.0	326.6	591.5
Dividends and interest received		25.8	30.0	58.7
Finance costs		(27.8)	(6.9)	(30.0)
Taxation paid		(195.4)	(224.3)	(403.2)
Cash retained from operating activities		101.6	125.4	217.0
Net cash outflow from investing activities		(49.8)	(65.3)	(66.6)
Net cash outflow from financing activities	9	(294.1)	(337.0)	(439.3)
Net movement in cash and cash equivalents		(242.3)	(276.9)	(288.9)
Cash and cash equivalents at the beginning of the period		(393.6)	(104.7)	(104.7)
Cash and cash equivalents at the end of the period		(635.9)	(381.6)	(393.6)

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. **Basis of accounting**
These consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), specifically IAS 34 on interim financial reporting, and are consistent with those applied for the year ended 31 March 2007 and the six months ended 30 September 2006.

	30 Sept 2007 Rm Unaudited	30 Sept 2006 Rm Unaudited	31 Mar 2007 Rm Audited
2. Cost of merchandise sales			
Purchases	670.9	579.4	1 211.7
Movement in inventory	(80.3)	(31.2)	(17.7)
Cost of merchandise sales	590.6	548.2	1 194.0
Merchandise gross profit	306.2	286.2	614.8
3. Debtor costs			
Bad debts, bad debt recoveries and repossession losses	41.6	42.6	138.4
Movement in doubtful debts provision	41.1	28.1	9.5
	82.7	70.7	147.9
4. Net finance costs/(income)			
Interest paid:			
– Bank and loans	23.4	6.9	26.9
– Other	–	–	2.7
	23.4	6.9	29.6
Interest received:			
– Bank	(2.6)	(1.3)	(2.7)
– Other	–	–	(1.3)
	(2.6)	(1.3)	(4.0)
Forward exchange contracts	4.4	(8.9)	(13.2)
	25.2	(3.3)	12.4
5. Trade and other receivables			
Instalment sale and loan receivables	3 368.7	3 069.8	3 317.0
Provision for unearned finance charges	(213.1)	(354.4)	(389.3)
Provision for unearned maintenance income	(186.8)	(174.4)	(183.4)
Provision for unearned insurance premiums	(245.0)	(192.5)	(214.3)
Unearned insurance premiums	(393.9)	(311.8)	(346.7)
Less: re-insurer's share of unearned premiums	148.9	119.3	132.4
Net instalment sale and loan receivables	2 723.8	2 348.5	2 530.0
Provision for doubtful debts	(418.6)	(396.1)	(377.5)
	2 305.2	1 952.4	2 152.5
Other receivables	22.7	36.7	35.2
	2 327.9	1 989.1	2 187.7

The credit terms of instalment sale and loan receivables range from 6 to 36 months (2006: 6 to 24 months). Amounts due from instalment sale and loan receivables after one year are reflected as current, as they form part of the normal operating cycle.

	30 Sept 2007 Rm Unaudited	30 Sept 2006 Rm Unaudited	31 Mar 2007 Rm Audited
6. Trade and other payables			
Trade payables	131.6	129.2	91.6
Accruals and other payables	110.9	109.6	94.0
Due to reinsurers	86.9	71.4	76.1
Insurance provisions	28.4	24.6	26.0
	357.8	334.8	287.7

7. **Material capital commitments**
There were no material capital commitments contracted for or authorised and contracted for at the end of the period under review.

	30 Sept 2007 Rm Unaudited	30 Sept 2006 Rm Unaudited	31 Mar 2007 Rm Audited
8. Cash generated from operations			
Operating profit	422.6	368.8	859.9
Adjusted for:			
Depreciation and amortisation	25.4	23.0	38.9
Share-based payment	3.1	1.4	4.0
Surplus on disposal of property, plant and equipment	(2.4)	(2.4)	(3.8)
Movement in provision for doubtful debts	41.1	28.1	9.5
Movement in retirement benefits provision	1.7	1.8	(8.2)
Movement in other provisions	9.1	5.1	11.1
Changes in working capital:	(201.6)	(99.2)	(319.9)
Increase in inventory	(82.1)	(31.8)	(20.1)
Increase in trade and other receivables	(182.3)	(114.2)	(295.3)
Increase in trade and other payables	62.8	46.8	(4.5)
	299.0	326.6	591.5
9. Net cash outflow from financing activities			
Purchase of treasury shares	(162.4)	(213.4)	(213.5)
Dividends paid	(134.1)	(126.7)	(231.8)
Other	2.4	3.1	6.0
	(294.1)	(337.0)	(439.3)