Final Audited Results

for the year ended 31 March 2012

Lewis Group Ltd

Revenue up	Gross profit margin	Operating profit margin	HEPS up	Final dividend up
6.1%	38.9%	23.5%	13.0%	30.4%

Overview

Trading conditions became increasingly challenging during the year as consumers encountered rising transport and utility costs, with lower disposable income placing pressure on both sales and credit collections. Revenue for the period increased by 6.1% to R4.9 billion, with merchandise sales rising 3.3% to R2.4 billion.

Continued merchandise innovation resulted in the gross profit margin improving from 36.3% to 38.9%, contributing to growth of 13.0% in headline earnings per share.

The final dividend has been increased by 30.4% to 270 cents per share, with the company substantially covering the impact of the recently introduced dividend withholding tax of 15% on behalf of shareholders.

Trading and financial performance

Furniture and appliance sales for the group increased by 4.8% while sales of electronic goods were 3.5% lower, reflecting the slowdown in discretionary spending. Furniture sales comprise 54% of total merchandise sales (2011: 53%). Credit sales as a percentage of total sales were consistent with 2011 at 71.4%.

Merchandise sales in the flagship Lewis brand, which accounts for 83.3% of total sales, increased by 3.6%. Best Home and Electric sales grew by 10.6%, with furniture comprising 34% of this brand's sales (2011: 32%).

Revenue increased by 6.1% to R4.9 billion. Insurance income rose by 15.4% owing to the higher proportion of longer term contracts now in the debtor base. Growth in insurance premiums is expected to be generally in line with sales growth in future. Finance charges declined 1.2% due to the lower average interest rate in the debtors' book for the period. The 16.2% increase in ancillary services reflects the impact of higher maintenance fee income.

The gross profit margin improved by 260 basis points to 38.9% owing mainly to better buying, the introduction of new merchandise ranges and a continued shift in the merchandise mix to higher margin furniture sales. Management believes that a sustainable medium-term margin is 36% – 38%.

Operating costs, excluding debtor costs, increased by 8.8%. Cost growth for the second half of the year was contained at 6.5%. Expenses were impacted by higher marketing and promotional activity to support sales, as well as increasing electricity and transport costs.

Operating profit margin increased by 50 basis points to 23.5% and resulted in 8.2% growth in operating profit to R1.14 billion. Headline earnings increased to R781 million, with headline earnings per share 13.0% higher at 882.5 cents (2011: 781.1 cents) benefiting from foreign exchange gains of R15.2 million (2011: loss of R8.0 million).

Cash generated from operations reflected a solid increase of R200 million and the group's gearing ratio improved to 23.3% from 26.8% in the previous year.

Debtor management

Debtor costs settled at 10.8% of net debtors in a tight collections environment. An encouraging feature of the second six months of the year was the containment of the increase in debtor costs at 8.7% against 13.8% for the full year.

An analysis of the group's debtors' book based on payment ratings shows that 72.1% of customers are in the "satisfactory paid" category compared to 74.5% the previous year. Non-performing accounts increased from 11.2% to 13.0% at year-end. These accounts remain on the debtors' book for as long as it is economically viable to collect the outstanding debt and are covered by an average impairment provision of 95%.

The group remains adequately provided with the impairment provision at 18% which compares to the average debtor costs of between 10% and 11% over the last four years.

Store expansion

The group's store base passed the 600 mark following the opening of 17 Lewis and 12 Best Home and Electric outlets, bringing the store footprint to 602. All the new Lewis outlets are the smaller format stores with lower cost structures and higher sales densities. There are now 54 smaller format stores in the Lewis portfolio and all are performing according to expectations. The group remains committed to its medium-term objective of growing the store base to 700.

Prospects

There has been rapid growth in unsecured credit in the Lewis target market. Consumers are also under increasing pressure from rising fuel, electricity and food costs and job creation remains key to stimulating growth in this sector of the market. Management expects trading conditions to remain challenging in the year ahead.

The group has strategies in place to meet these challenges and continues to invest for growth by expanding the retail footprint through adding 20 to 25 smaller format stores in the year ahead.

Dividend declaration

Notice is hereby given that a final gross cash dividend of 270 cents per share in respect of the year ended 31 March 2012 has been declared payable to holders of ordinary shares.

The dividend has been declared out of income reserves and is subject to a dividend tax of 15%. The STC credits ("Secondary Tax on Companies") utilised in this declaration is R17 969 686. At the time of this declaration, there are 98 057 959 shares in issue and consequently the STC credit per share is 18.32558 cents. Accordingly, the dividend for determining the dividend tax is 251.67442 cents and the dividend tax payable is 37.75116 cents per share for shareholders who are not exempt. The net dividend for shareholders who are not exempt will therefore be 232.24884 cents. The dividend tax rate may be reduced where the shareholder is tax resident in a foreign jurisdiction which has a Double Tax Convention with South Africa and meets the requirements for a reduced rate.

The company's tax reference number is 9551/419/15/4.

The following dates are applicable to this declaration:

Last date to trade "cum" dividend	Friday 13 July 2012
Date trading commences "ex" dividend	Monday 16 July 2012
Record date	Friday 20 July 2012
Date of payment	Monday 23 July 2012

Share certificates may not be dematerialised or rematerialised between Monday 16 July 2012 and Friday 20 July 2012.

For and on behalf of the board.

David Nurek
Independent Non-executive Chairman

Johan Enslin
Chief Executive Officer

Cape Town
23 May 2012

External auditors' opinion

The external auditors, PricewaterhouseCoopers Inc., have audited the group's annual financial statements and the abridged financial statements contained herein for the twelve months ended 31 March 2012. A copy of their unqualified reports are available on request at the company's registered office.

Executive directors: J Enslin (Chief Executive Officer), L A Davies (Chief Financial Officer). **Non-executive directors:** D M Nurek (Chairman) (Ind.), H Saven (Ind.), B J van der Ross (Ind.), Professor F Abrahams (Ind.), Z B M Bassa (Ind.), M S P Marutlulle (Ind.), A J Smart. **Company secretary:** M G McConnell. **Transfer secretaries:** Computershare Investor Services (Pty) Ltd 70 Marshall Street, Johannesburg, 2001; PO Box 61051, Marshalltown, 2107.
Auditors: PricewaterhouseCoopers Inc. **Sponsor:** UBS South Africa (Pty) Ltd. **Registered office:** 53A Victoria Road, Woodstock, 7925. **Registration number:** 2004/009817/06. **Share code:** LEW. **ISIN:** ZAE000058236

Abridged annual financial statements

Income statement

	Notes	For the year ended 31 March 2012 Rm Audited	% change	For the year ended 31 March 2011 Rm Audited
Revenue		4 857.3	6.1%	4 577.7
Merchandise sales		2 365.4		2 290.3
Finance charges earned		908.2		919.6
Insurance premiums earned		868.5		752.4
Ancillary services		715.2		615.4
Cost of merchandise sales		(1 446.3)		(1 458.6)
Operating costs		(2 271.9)		(2 066.6)
Employment costs		(732.9)		(693.5)
Administration and IT		(220.7)		(208.1)
Debtor costs	2	(522.3)		(458.9)
Marketing		(184.5)		(156.5)
Occupancy costs		(207.3)		(186.1)
Transport and travel		(177.9)		(147.5)
Depreciation		(48.5)		(46.5)
Other operating costs		(177.8)		(169.5)
Operating profit		1 139.1	8.2%	1 052.5
Investment income		91.9		82.0
Profit before finance costs		1 231.0		1 134.5
Net finance costs		(63.2)		(91.9)
Interest paid		(82.2)		(87.1)
Interest received		3.8		3.2
Forward Exchange Contracts		15.2		(8.0)
Profit before taxation		1 167.8		1 042.6
Taxation		(367.2)		(330.7)
Net profit attributable to ordinary shareholders		800.6	12.5%	711.9

Statement of comprehensive income

	For the year ended 31 March 2012 Rm Audited	For the year ended 31 March 2011 Rm Audited
Net profit for the year	800.6	711.9
Fair value adjustment to available-for-sale investments	72.9	38.1
Disposal of available-for-sale investments	(17.2)	(17.8)
Foreign currency translation reserve	1.5	(4.1)
Other comprehensive income	57.2	16.2
Total comprehensive income for the year attributable to equity shareholders	857.8	728.1

Earnings and dividends per share

		For the year ended 31 March 2012	% change	For the year ended 31 March 2011
1.	**Weighted average no. of shares**			
	Weighted average	88 463		88 194
	Diluted weighted average	89 446		89 185
2.	**Headline earnings (Rm)**			
	Attributable earnings	800.6		711.9
	Profit on disposal of assets and investments	(19.9)		(23.0)
	Headline earnings	780.7		688.9
3.	**Earnings per share (cents)**			
	Earnings per share	905.0		807.2
	Diluted earnings per share	895.1		798.2
4.	**Headline earnings per share (cents)**			
	Headline earnings per share	882.5	13.0%	781.1
	Diluted headline earnings per share	872.8		772.4
5.	**Dividends per share (cents)**			
	Dividends paid per share			
	Final dividend 2011 (2010)	207.0		179.0
	Interim dividend 2012 (2011)	172.0		156.0
		379.0		335.0
	Dividends declared per share			
	Interim dividend 2012 (2011)	172.0		156.0
	Final dividend 2012 (2011)	270.0	30.4%	207.0
		442.0	21.8%	363.0

Key ratios

	For the year ended 31 March 2012	For the year ended 31 March 2011
Operating efficiency ratios		
Gross profit margin %	38.9%	36.3%
Operating profit margin %	23.5%	23.0%
Number of stores	602	582
Number of permanent employees (average)	7 062	6 842
Trading space (sqm)	229 542	231 184
Inventory turn	5.1	5.7
Current ratios	4.7	3.4
Credit ratios		
Credit sales %	71.4%	71.4%
Bad debts as a % of net debtors	8.3%	7.4%
Debtor costs as a % of the net debtors	10.8%	10.2%
Debtors' impairment provision as a % of net debtors	18.0%	16.8%
Arrear instalments on satisfactory accounts as a percentage of net debtors	10.3%	10.1%
Arrear instalments on slow-paying and non-performing accounts as a percentage of net debtors	21.9%	19.9%
Debtors' impairment provision on non-performing accounts	76.9%	78.8%
Credit applications decline rate	33.0%	31.5%
Shareholder ratios		
Net asset value per share (cents)	4 828	4 225
Gearing ratio	23.3%	26.8%
Return on average equity (after-tax)	20.0%	20.3%
Return on average capital employed (after-tax)	16.7%	17.2%
Return on average assets managed (pre-tax)	21.1%	21.8%

Notes:
1. All ratios are based on figures at the end of the year unless otherwise disclosed.
2. The net asset value has been calculated using 88 536 000 shares in issue (2011: 88 237 000).
3. Total assets exclude the deferred tax asset.

Balance sheet

	Notes	31 March 2012 Rm Audited	31 March 2011 Rm Audited
Assets			
Non-current assets			
Property, plant and equipment		311.9	278.7
Deferred taxation		16.1	20.1
Insurance investments	3	1 005.3	857.1
		1 333.3	1 155.9
Current assets			
Inventories		281.4	256.3
Trade and other receivables	4	4 064.5	3 835.0
Insurance investments	3	373.3	240.2
Cash on hand and deposits		77.9	84.3
		4 797.1	4 415.8
Total assets		6 130.4	5 571.7
Equity and liabilities			
Capital and reserves			
Share capital and premium		95.4	93.5
Other reserves		277.9	207.1
Retained earnings		3 901.3	3 427.5
		4 274.6	3 728.1
Non-current liabilities			
Long-term interest-bearing borrowings		650.0	400.0
Deferred taxation		111.4	85.1
Retirement benefits		63.6	59.4
		825.0	544.5
Current liabilities			
Trade and other payables	5	585.8	567.0
Taxation		21.0	49.1
Short-term interest-bearing borrowings		424.0	683.0
		1 030.8	1 299.1
Total equity and liabilities		6 130.4	5 571.7

Cash flow statement

	For the year ended 31 March 2012 Rm Audited	For the year ended 31 March 2011 Rm Audited
Cash flow from operating activities		
Cash flow from trading	1 358.3	1 295.6
Change in working capital	(385.9)	(518.6)
Cash generated from operations	972.4	777.0
Interest and dividends received	76.6	66.0
Interest paid	(67.0)	(95.1)
Taxation paid	(377.4)	(328.0)
	604.6	419.9
Cash utilised in investing activities		
Net additions to insurance investments	(194.1)	(160.4)
Acquisition of property, plant and equipment	(87.8)	(78.6)
Proceeds on disposal of property, plant and equipment	10.2	11.7
	(271.7)	(227.3)
Cash flow from financing activities		
Dividends paid	(335.5)	(295.6)
Increase in long-term borrowings	250.0	50.0
Increase/(Decrease) in short-term borrowings	50.0	(50.0)
Proceeds on sale of own shares	5.2	3.5
	(30.3)	(292.1)
Net increase/(decrease) in cash and cash equivalents	302.6	(99.5)
Cash and cash equivalents at the beginning of the year	(348.7)	(249.2)
Cash and cash equivalents at the end of the year	(46.1)	(348.7)
Analysis of borrowings and banking facilities		
Borrowings		
Long-term	650.0	400.0
Short-term	300.0	250.0
	950.0	650.0
Cash and cash equivalents		
Short-term facilities utilised	124.0	433.0
Cash on hand	(77.9)	(84.3)
	46.1	348.7
Net borrowings	996.1	998.7
Unutilised facilities	753.9	451.3
Total banking facilities	1 750.0	1 450.0

Segmental report

Reportable segment	Lewis Rm	Best Home and Electric Rm	My Home Rm	Group Rm
2012				
Revenue	4083.8	653.5	120.0	4 857.3
Operating profit	985.1	145.6	8.4	1 139.1
Operating margin	24.1%	22.3%	7.0%	23.5%
Segment assets	3 624.5	535.3	104.6	4 264.4
2011				
Revenue	3 853.5	588.5	135.7	4 577.7
Operating profit	919.7	126.0	6.8	1 052.5
Operating margin	23.9%	21.4%	5.0%	23.0%
Segment assets	3 422.3	491.5	102.3	4 016.1

Statement of changes in equity

	For the year ended 31 March 2012 Rm Audited	For the year ended 31 March 2011 Rm Audited
Share capital and premium		
Opening balance	93.5	93.5
Share awards to employees	1.9	–
	95.4	93.5
Other reserves		
Opening balance	207.1	171.3
Other comprehensive income for the year	57.2	16.2
Share-based payment	19.0	18.4
Other movements	(5.4)	1.2
	277.9	207.1
Retained earnings		
Opening balance	3 427.5	3 008.9
Net profit attributable to ordinary shareholders	800.6	711.9
Distribution to shareholders	(335.5)	(295.6)
Other movements	8.7	2.3
	3 901.3	3 427.5
Balance as at 31 March 2012	4 274.6	3 728.1

Debtors' analysis

The company applies a payment rating assessment to each customer individually, which categorises customers into 13 payment categories. This assessment is integral to the calculation of the debtors' impairment provision. The 13 payment categories have been summarised into four main groupings of customers. An analysis of the debtors book based on the payment ratings is set out below.

		No. of customers 2012	No. of customers 2011	Impairment provision % 2012	Impairment provision % 2011
Satisfactory paid: Customers fully up to date including those who have paid 70% or more of amounts due over the contract period	No. %	491 478 72.1%	521 304 74.5%	1%	1%
Slow payers: Customers fully up to date including those who have paid 65% to 70% of amounts due over the contract period	No. %	55 791 8.2%	55 439 7.9%	26%	27%
Non-performing customers: Customers who have paid 55% to 65% of amounts due over the period of the contract	No. %	45 978 6.7%	44 436 6.4%	42%	44%
Non-performing customers: Customers who have paid 55% or less of amounts due over the period of the contract	No. %	88 265 13.0%	78 174 11.2%	95%	98%
Total		681 512	699 353	18.0%	16.8%

The debtors' impairment provision is allocated to the summary categories based on the number of customers.

Notes to the financial statements

1. **Basis of reporting**

The information contained in these abridged financial statements has been extracted from the Group's 2012 audited annual financial statements which has been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards (IFRS) including IAS34 (Interim Financial Reporting), and in compliance with the Listings Requirements of the JSE. The accounting policies applied are consistent with those applied in the annual financial statements for the year ended 31 March 2011.

	31 March 2012 Rm Audited	31 March 2011 Rm Audited
2. Debtor costs		
Bad debts, repossession losses and bad debt recoveries	405.4	336.0
Movement in impairment provision	116.9	122.9
	522.3	458.9
3. Insurance investments – available for sale		
Listed		
Listed shares	442.9	365.2
Fixed income securities	562.4	491.9
Unlisted		
Money market	373.3	240.2
	1 378.6	1 097.3

Investments are classified as available-for-sale and are reflected at fair value. Changes in fair value are reflected in the statement of comprehensive income.

	31 March 2012 Rm Audited	31 March 2011 Rm Audited
4. Trade and other receivables		
Instalment sale and loan receivables	5 871.1	5 454.7
Provision for unearned finance charges and unearned maintenance income	(280.9)	(271.4)
Provision for unearned initiation fees	(109.8)	(102.6)
Provision for unearned insurance premiums	(622.2)	(562.6)
Net instalment sale and loan receivables	4 858.2	4 518.1
Provision for impairment	(875.2)	(758.3)
	3 983.0	3 759.8
Other receivables	81.5	75.2
	4 064.5	3 835.0

Amounts due from instalment sale and loan receivables after 1 year are reflected as current, as they form part of the normal operating cycle. The credit terms of instalment sale and loan receivables range from 6 to 36 months. The average effective interest rate on instalment sale and loan receivables is 22.3% (2011: 24.1%) and the average term of the sale is 28.3 months (2011: 27.9 months).

	31 March 2012 Rm Audited	31 March 2011 Rm Audited
5. Trade and other payables		
Trade payables	71.1	72.7
Accruals and other payables	166.0	178.1
Due to reinsurers	147.2	144.8
Insurance provisions	201.5	171.4
	585.8	567.0

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