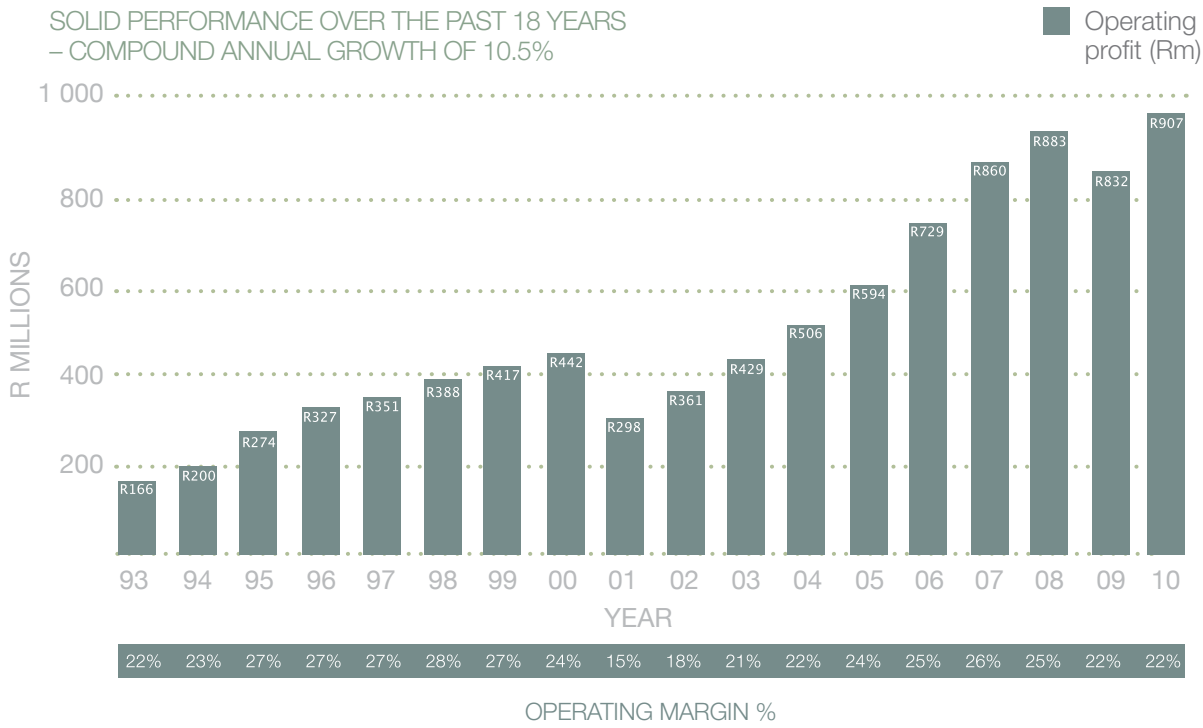
Lewis Group Ltd

ANNUAL REPORT **2010**

OPERATING PROFIT – HISTORY

SOLID PERFORMANCE OVER THE PAST 18 YEARS
– COMPOUND ANNUAL GROWTH OF 10.5%



REVENUE INCREASED BY
8.0%

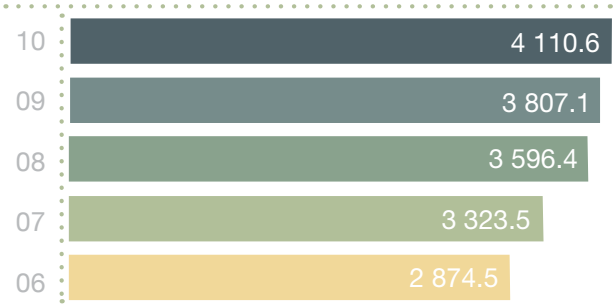
OPERATING PROFIT MARGIN
22.1%

OPERATING PROFIT UP
9.0%

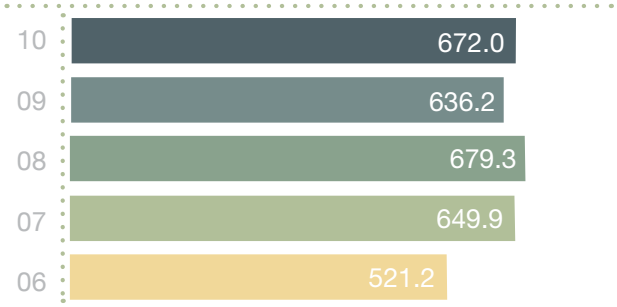
EARNINGS PER SHARE UP
5.6%

TOTAL DIVIDEND PER SHARE MAINTAINED AT
323 cents

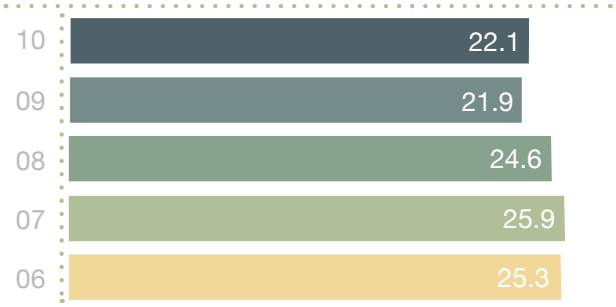
REVENUE – (R MILLIONS)



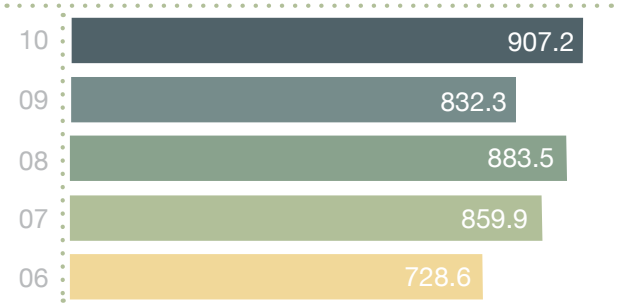
EPS – (CENTS)



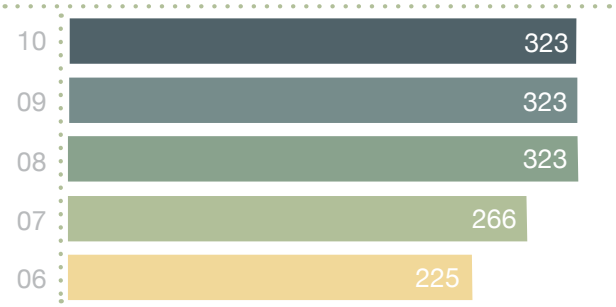
OPERATING MARGIN – (PERCENTAGE)



OPERATING PROFIT (R MILLIONS)



DIVIDENDS DECLARED – (CENTS)



BRAND STRENGTH AND GROWTH PERFORMS THROUGH ALL CYCLES.

Lewis Group is a leading retailer of household furniture, electrical appliances and home electronics sold on credit through the Lewis, Best Home and Electric and Lifestyle Living brands.

Focused primarily on the expanding middle to lower income market in the living standards measurement (LSM) 4 to 7 categories, the group has a customer base of close to 700 000.

A new chain, My Home, will be launched early in the 2011 financial year, targeting more aspirational customers in the LSM 7 and 8 groups.

Monarch Insurance, the group's financial services arm, provides short-term insurance cover to credit customers.

Founded 76 years ago in Cape Town, the Lewis Group has grown its branch network to 548 stores. This includes stores across all major metropolitan areas as well as a strong presence in rural South Africa, with 49 stores in the neighbouring countries of Botswana, Lesotho, Namibia and Swaziland.

The group has been listed on the JSE Limited since 2004 where it is classified under the General Retailers sector.

Further information on the group's history and operations is available on the corporate website www.lewisgroup.co.za

THE GROUP OFFERS A COMPELLING CASE FOR INVESTORS LOOKING FOR EXPOSURE TO THE COUNTRY'S RETAIL SECTOR WITH A FOCUS ON A HIGH GROWTH SEGMENT OF THE POPULATION. INVESTORS SHOULD CONSIDER THE FOLLOWING FEATURES WHEN EVALUATING A POTENTIAL INVESTMENT IN THE LEWIS GROUP:

CLEAR STRATEGIC DIRECTION

- Focused on core business of furniture retailing
- Primary focus on high growth LSM 4 – 7 target market
- Lewis one of most recognisable furniture brands in SA

PROVEN BUSINESS MODEL

- Integrated credit and marketing strategies
- Centralised credit approval and granting process
- Decentralised cash collection process
- Differentiated and exclusive merchandise ranges (refer to 'customer-focused business model' on page 4.)

INDUSTRY-LEADING CREDIT MANAGEMENT

- Credit offered across all brands
- Advanced application and behavioural risk scorecards
- High proportion of credit business
- Opportunity to sell insurance to credit customers

SUSTAINED FINANCIAL PERFORMANCE

- Historically high operating margins
- Operating margin target of 26% by 2013
- Low cost structure

STORE-BASED CUSTOMER FOCUS

- Long-term personal relationships developed with customers
- 55% of business to existing customers through re-serve programme

STORE FOOTPRINT

- National coverage of 548 stores
- Presence in all major metropolitan and rural areas
- Stores conveniently located for needs of target customers
- Targeting to open 150 stores in three to four years

EXPERIENCED MANAGEMENT TEAM

- Strong blend of company and industry experience

CUSTOMER-FOCUSED BUSINESS MODEL

LEWIS GROUP OPERATES A DECENTRALISED, STORE-BASED BUSINESS MODEL WHERE ALL ASPECTS OF THE RELATIONSHIP WITH THE CUSTOMER ARE MANAGED BY THE STAFF IN THE STORES.

This model has been consistently applied since the inception of the business and is based on the premise that the selling of furniture and the provision of credit are interdependent. The only aspects of the customer relationship that are not managed at a store level are the credit approval and granting processes.

CUSTOMER RELATIONSHIPS MANAGED BY STORES

Store

- Stores are accountable for all aspects of the customer relationship
- Strong relationships are developed with customers over the lifespan of a contract
- Stores are located close to where Lewis customers work, shop, live and commute
- Customers are serviced by staff from their own communities
- Store managers are empowered to influence performance of stores

Merchandise sales and credit applications

- Furniture ranges and appliances are sold on credit
- Credit applications are completed by stores and submitted to head office
- Customer protection insurance is an optional offer
- Store staff are commission based and incentivised on sales targets
- Community focused in-store promotions are a major component of marketing

Collections

- Collection staff develop long-term relationships with customers
- Stores are responsible for cash collection and follow-up of defaulting customers
- Convenient for customers to pay at stores
- Customers visiting stores to pay accounts create opportunities for repeat sales
- Collection staff incentivised on collections targets

Re-serve programme

- High level of sales are to existing customers through the re-serve programme
- Existing customers are identified for further credit based on payment history
- Targeted mailings and promotional offers aimed at these customers

Distribution and supply chain

- Lewis Group does not operate distribution centres or warehouses – merchandise is delivered directly by suppliers to stores
- Stores are responsible for all deliveries to customers
- Average of 90% of deliveries are completed within 24 hours of sale

CENTRALISED CREDIT ASSESSMENT AND APPROVAL

Head office

- Credit is granted centrally to ensure credit risk policies are consistently applied, removing any subjectivity in the credit-granting process

Credit application and granting

- Credit applications are submitted to head office from stores
- Industry-leading technology used to determine creditworthiness of a customer
- Advanced application and behavioural risk scorecards are applied
- Credit policies determine credit limit, term and deposit required from customer
- Decisions on credit applications relayed to stores within an average of nine seconds

A HISTORY OF CONSISTENT GROWTH

1930s

1934: Latvian-born Meyer Lewis buys "Woodstock Auction Mart" in Cape Town.
1936: The name changes to M. Lewis and Company and new furniture is introduced to its range of products.

1940s

1946: On 30 October, Lewis listed on the J.S.E. under the name "Lewis Stores Limited" to raise capital for expanding the business in South Africa.
The household furnishing businesses and the entire issued share capital of M. Lewis and Company (Proprietary) Limited is acquired from Meyer, Jack and Israel Lewis.
1947: GUS plc enters the South African retail furniture market by acquiring a controlling interest in Lewis and Barons Furnishers. Lewis is subsequently delisted.

1950s

1950: A programme of expansion commences and runs over the next seven years.
1957: Lewis has 55 stores trading under the names "Barons", "Excelsior Meubels", "Lewis" and "Universal Stores" (the latter being a credit clothing chain with nine stores).

1960s – 1970s

1969 – 1972: Lewis establishes branches in Botswana, Namibia and Swaziland.
1972: Lewis acquires a furniture chain of about 50 stores from Edgars Consolidated Stores Limited, which is rebranded "Dan Hands". Its clothing chain, Universal Stores, is sold to Edgars.
1973: The number of stores in the group reaches 227.

1980s – 1990s

1980 – 1990: Further expansion takes place, including the establishment of Lewis (Lesotho), and the group grows by an additional 100 stores.
1994: The group's financial services arm is established through wholly-owned subsidiary, Monarch Insurance.
1997: The group decides to refocus away from the lower end of the market and 130 Dan Hands stores are converted to Lewis stores.
1998: The Best Electric chain is launched to sell specialised electrical products in six stores in high traffic areas.
1998: The commencement of a credit application scoring system.

2000s

1999 – 2000: The group embarks on a major investment in information and technology systems.
2003: Lewis acquires the business of Lifestyle Living, which has 18 stores serving a higher income market.
2004: Lewis is listed on the JSE under its newly constituted holding company, Lewis Group Limited. To facilitate the listing, GUS plc offered 46% of its holding in a book-building exercise, retaining 54% of the group.
2005: GUS plc sold its remaining holding in the group. The net result was a diverse shareholder base with no shareholder holding more than 20%.
2007: Lewis opens its 500th store.
2008: The Best Electric chain expands its product range by offering furniture lines and consequently, is rebranded as Best Home and Electric.

FIVE-YEAR REVIEW

	2010 Rm	2009 Rm	2008 Rm	2007 Rm	2006 Rm
GROUP INCOME STATEMENTS					
Revenue	**4 110.6**	3 807.1	3 596.4	3 323.5	2 874.5
Cost of sales	**(1 330.6)**	(1 318.3)	(1 272.1)	(1 194.0)	(1 020.6)
Operating costs	**(1 872.8)**	(1 656.5)	(1 440.8)	(1 269.6)	(1 125.3)
Operating profit	**907.2**	832.3	883.5	859.9	728.6
Investment income	**77.5**	76.9	71.7	42.7	28.9
Profit before interest and taxes (EBITA)	**984.7**	909.2	955.2	902.6	757.5
Finance costs	**(121.2)**	(86.5)	(56.8)	(12.4)	(12.8)
Net profit before tax	**863.5**	822.7	898.4	890.2	744.7
Taxation	**(272.1)**	(261.5)	(289.9)	(291.9)	(237.6)
ATTRIBUTABLE PROFIT	**591.4**	561.2	608.5	598.3	507.1
HEADLINE EARNINGS	**565.5**	556.2	584.1	594.2	510.4
GROUP BALANCE SHEETS					
ASSETS					
Non-current	**980.1**	760.2	702.9	746.9	730.9
Property, plant and equipment	**251.1**	225.1	197.5	182.9	163.2
Investments – insurance business	**716.0**	535.1	505.4	461.1	478.0
Deferred tax asset	**13.0**	–	–	102.9	89.7
Current	**3 877.9**	3 375.3	3 058.1	2 653.0	2 249.1
Investments – insurance business	**178.1**	199.1	159.5	199.3	111.9
Inventories	**210.0**	228.0	230.4	230.3	212.6
Trade and other receivables	**3 427.6**	2 893.4	2 571.8	2 187.7	1 896.5
Taxation	**–**	–	29.6	–	–
Cash and cash equivalents	**62.2**	54.8	66.8	35.7	28.1
TOTAL ASSETS	**4 858.0**	4 135.5	3 761.0	3 399.9	2 980.0
EQUITY AND LIABILITIES					
Capital and reserves	**3 273.7**	2 900.3	2 696.2	2 527.2	2 305.4
Non-current liabilities	**486.3**	191.6	59.0	93.0	97.7
Interest-bearing borrowings	**350.0**	100.0	–	–	1.0
Retirement benefits	**51.8**	53.9	57.7	67.6	75.8
Deferred taxation	**84.5**	37.7	1.3	25.4	20.9
Current liabilities	**1 098.0**	1 043.6	1 005.8	779.7	576.9
Trade and other payables	**450.0**	404.1	302.4	287.7	283.5
Current portion of interest-bearing borrowings	**–**	–	–	1.0	0.8
Short-term borrowings	**611.4**	637.0	703.4	429.3	132.8
Taxation	**36.6**	2.5	–	61.7	159.8
TOTAL EQUITY AND LIABILITIES	**4 858.0**	4 135.5	3 761.0	3 399.9	2 980.0

	2010 Rm	2009 Rm	2008 Rm	2007 Rm	2006 Rm
GROUP CASH FLOW STATEMENTS					
CASH GENERATED FROM OPERATIONS	**478.1**	669.7	556.2	591.5	593.2
Dividends and interest received	**59.9**	96.3	61.0	58.7	41.3
Interest paid	**(127.2)**	(108.5)	(68.2)	(30.0)	(18.7)
Tax paid	**(214.2)**	(185.6)	(290.4)	(403.2)	(244.4)
Net cash retained from operations	**196.6**	471.9	258.6	217.0	371.4
Cash utilised in investing activities	**(126.3)**	(183.0)	(97.3)	(66.6)	(45.5)
Net effect of financing activities	**(37.3)**	(234.5)	(404.3)	(439.3)	(313.9)
Net cash increase / (decrease) in cash and cash equivalents	**33.0**	54.4	(243.0)	(288.9)	12.0

	2010	2009	2008	2007	2006
RATIOS AND STATISTICS					
RETURNS					
Return on average shareholders funds (after-tax)	**19.2%**	20.1%	23.3%	24.8%	23.2%
Return on average capital employed (after-tax)	**17.2%**	17.7%	20.4%	22.5%	22.1%
Return on average assets managed (pre-tax)	**21.9%**	23.0%	26.7%	28.3%	26.8%
MARGINS					
Gross margin	**34.9%**	31.3%	32.7%	34.0%	34.9%
Operating margin	**22.1%**	21.9%	24.6%	25.9%	25.3%
PRODUCTIVITY					
Number of stores	**548**	535	525	508	490
Revenue per store (R 000's)	**7 501**	7 116	6 850	6 542	5 866
Operating profit per store (R 000's)	**1 655**	1 556	1 683	1 693	1 487
Average number of employees (permanent employees only)	**6 668**	6 480	6 696	6 310	5 879
Revenue per employee (R 000's)	**616**	588	537	527	489
Operating profit per employee (R 000's)	**136**	128	132	136	124
Trading space (sqm)	**225 891**	223 102	220 236	215 076	210 201
Revenue per sqm (R)	**18 197**	17 064	16 330	15 453	13 675
Operating profit per sqm (R)	**4 016**	3 731	4 012	3 998	3 466
Inventory turn (times)	**6.0**	5.8	5.5	5.2	4.8
CREDIT RATIOS					
Cash and short-term sales as a % of total sales	**31.5%**	35.7%	33.1%	30.7%	29.9%
Bad debts as a % of net trade receivables	**8.3%**	6.0%	5.9%	5.5%	6.0%
Debtor costs as a % of net trade receivables	**10.9%**	10.0%	6.5%	5.8%	5.2%
Debtors' impairment provision as a % of net trade receivables	**16.0%**	15.7%	13.5%	14.9%	16.5%
Arrear instalments on satisfactory paid accounts as a % of net debtors	**9.3%**	9.5%	10.6%	10.7%	10.5%
Arrear instalments on slow-paying and non-performing accounts as a % of net debtors	**19.8%**	20.9%	19.3%	19.0%	20.6%
Doubtful debts provision on non-performing accounts	**74.9%**	71.3%	69.6%	81.2%	86.4%
Credit applications decline rate %	**27.5%**	25.4%	22.5%	20.1%	22.4%

FIVE-YEAR REVIEW CONTINUED

	2010	2009	2008	2007	2006
SOLVENCY AND LIQUIDITY					
Financing cover (times)	**8.1**	10.5	16.8	72.8	59.2
Dividend cover	**1.87**	1.79	2.00	2.25	2.25
Gearing ratio (%)	**27.5%**	23.5%	23.6%	15.6%	4.6%
Current ratio (times)	**3.5**	3.2	3	3.4	3.9
SHARE PERFORMANCE					
Earnings per share (cents)	**672.0**	636.2	679.3	649.9	521.2
Headline earnings per share (cents)	**642.6**	630.5	652.0	645.4	524.6
Cash flow per share (cents)	**543.3**	759.2	620.9	642.5	609.7
Net book asset per share (cents)	**3 718.8**	3 302.6	3 019.7	2 774.3	2 425.0
Share price:					
Closing price	**56.50**	42.69	41.90	68.50	61.60
High	**61.30**	52.00	75.00	75.00	62.97
Low	**40.06**	28.51	43.00	43.00	32.75
Normalised price-earnings ratio	**8.4**	6.7	6.2	10.5	11.8
Dividends per share for the financial year (cents)	**323**	323	323	266	225
Number of shares in issue (million)	**98.1**	98.1	99.2	100	100
Volume of shares traded (million)	**95.9**	96.0	110.5	120.8	156.1
Value of shares traded (million)	**4 911.4**	3 679.7	6 284.7	6 859.1	6 386.8
Market capitalisation (million)	**5 540**	4 188	4 156	6 850	6 160
Number of shareholders	**1 968**	1 609	1 501	1 776	2 331

EXPLANATORY NOTES:

1. All ratios are based on figures at the end of the year unless otherwise disclosed.
2. For the 2006 financial year, the results and financial position exclude the share-based payment (IFRS 2) arising from share awards and options granted at date of listing.
3. The 2008 and 2009 results have been restated for the change in accounting policy with regard to the deferred costs on initiation fees.

DEFINITIONS

The definitions below should be read in conjunction with the accounting policies set out in the financial statements on pages 71 to 77.

Return on average shareholders' equity

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 profit attributable to ordinary shareholders plus finance costs paid to providers of capital less the attributable tax on finance costs.

Capital employed is shareholders' interest and interest-bearing debt.

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.

Before-tax return on average assets managed

The before-tax return on average assets managed is the profit before interest and tax as a percentage of the average total assets.

Gross margin

Gross profit as a percentage of merchandise sales.

Operating margin

Operating profit as a percentage of revenue.

Inventory turn

Cost of merchandise sales divided by the closing inventory.

Slow-paying accounts (receivables)

These are customers who, to date, have paid between 65% and 70% of the amount due to Lewis over the whole period of the contract.

Non-performing accounts (receivables)

These are customers who, to date, have paid less than 65% of the amount due to Lewis over the whole period of the contract.

Financing cover

Profit before finance costs and taxation divided by the 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.

Earnings per share

Profit attributable to ordinary shareholders divided by the weighted average number of shares in issue.

Headline earnings per share

Headline earnings 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 asset value per share

The net asset value divided by the number of shares in issue, after deducting treasury shares, at the end of the year.

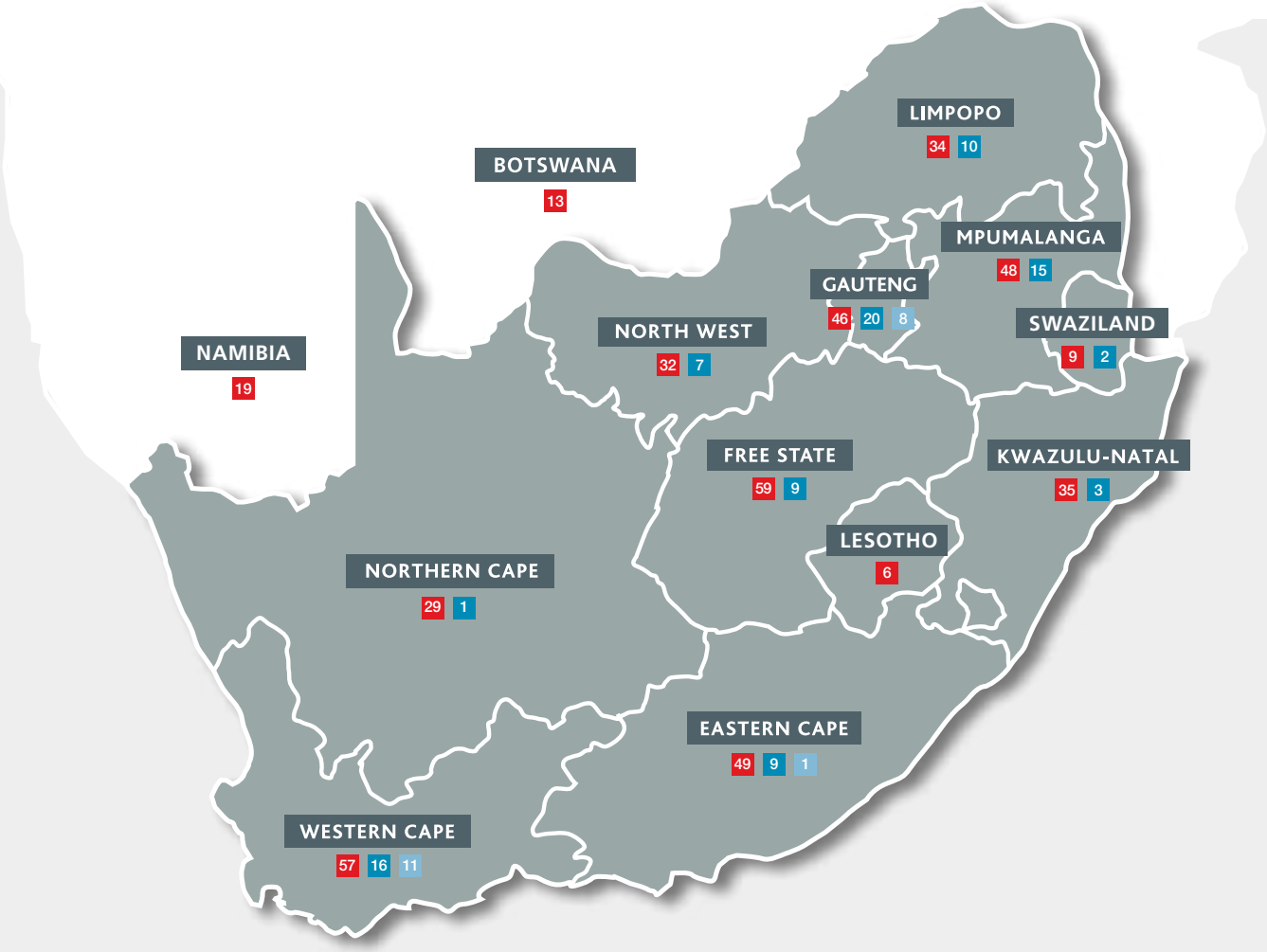
Price earnings ratio

The closing price on the JSE Limited on 31 March divided by the earnings per share.

Dividends per share

The dividends declared in respect of the financial year expressed as cents per share. Note that this will not correlate to the dividends reflected in the financial accounts since dividends for financial statement purposes are only recorded on payment.

GEOGRAPHICAL FOOTPRINT



COUNTRY AND PROVINCE LOCATIONS

	Lewis	Best Electric	Lifestyle Living
South Africa			
Free State	59	9	–
Western Cape	57	16	11
Mpumalanga	48	15	–
Eastern Cape	49	9	1
Gauteng	46	20	8
KwaZulu-Natal	35	3	–
Limpopo	34	10	–
North West	32	7	–
Northern Cape	29	1	–
Namibia	19	–	–
Botswana	13	–	–
Swaziland	9	2	–
Lesotho	6	–	–
Stores as at 31 March 2010	436	92	20
Total stores	548		

BOARD OF DIRECTORS

Seated left to right: Hilton Saven, David Nurek, Professor Fatima Abrahams, Johan Enslin and Zarina Bassa
Standing left to right: Ben van der Ross, Sizakele Marutlulle, Alan Smart and Les Davies

EXECUTIVE DIRECTORS

Johan Enslin (36)
Chief Executive Officer

Johan was appointed chief executive officer of Lewis Group on 1 October 2009. He is responsible for all aspects of the group.

Johan joined Lewis as a salesman in August 1993. He has, while climbing the ranks within the organisation, held various operational positions including Branch Manager, Regional Controller and Divisional General Manager. In 2002, he was made General Manager, Operations and with effect 1 April 2005, the operations director of Lewis Stores (Proprietary) Limited, being responsible for all facets of Lewis and Best Home and Electric store operations.

On 1 April 2007, Johan Enslin was appointed chief operating officer and became responsible for the entire retail operations of the group. Johan was appointed chief executive officer designate on 10 November 2008.

Les Davies (54) CA (SA)
Chief Financial Officer

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

Les has over 30 years' experience in financial management within the retail industry. Prior to joining Lewis Stores, Les spent five years as the Financial Director of AMC Classic (Proprietary) Limited. His experience covers a wide range of financial, administrative, legal, credit-related, insurance and statutory compliance matters.

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

NON-EXECUTIVE DIRECTORS

David Nurek (60) Diploma in Law

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

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

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

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

Hilton Saven (57) BCom, CA(SA)

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

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

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

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

Ben van der Ross (63) Diploma in Law

Independent Non-executive Director

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

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

Professor Fatima Abrahams (47)

BEcon (Hons), MComm, DComm

Independent Non-executive Director and Chairperson of the Transformation Committee

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

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

Alan Smart (65)

Non-executive Officer

Alan Smart retired on 30 September 2009 as Chief Executive Officer of the group, the position he held since 1991. Alan has accepted the invitation of the Board to continue as a non-executive director. Accordingly, his invaluable service and experience will not be lost to the group. He is also a member of the Remuneration and Nomination Committee and attends the Audit and Risk Committee by invitation.

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

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

Sizakele "Za" Marutlulle (42) MA (Sociology)

Independent Non-executive Director

Sizakele Marutlulle was appointed as an independent director on 1 October 2009.

Sizakele has worked in the media industry for over 17 years. She has held the position of chief operating officer of South Africa Tourism, deputy managing director of Hardbuoys McCann Erikson and co-founding the creative shop Lowe BCP and Partners.

Sizakele is currently the chief executive officer of Moonchild which aims to lift the quality of multi-cultural communications and marketing. She is a non-executive director of VWV Group South Africa and serves as a member of the Marketing Excellence Council and Brand Advisory Board.

Zarina Bassa (45) CA(SA)

Independent Non-Executive Director

Zarina Bassa was appointed as an independent non-executive director and as a member of the Audit and Risk Committee on 1 October 2009.

Zarina joined Ernst and Young in 1986, qualified as a Chartered Accountant in 1988 and was appointed a partner in 1996. In 1998, she was appointed chief operating officer responsible for the co-ordination of Ernst and Young's accounting practices in sub-Sahara Africa.

In 2005, Zarina joined the ABSA Group as an executive director of the Private Banking division and Executive Committee member. After leading ABSA Private Bank for three years, Zarina took up a strategic governance role within the group as Vice Chairperson of ABSA Retail Bank and continues to serve on a number of the boards of subsidiaries within the ABSA Group.

She is currently a member of the advisory board to the University of Stellenbosch Business School (USB) and is a non-executive director of BMF and the National Business Institute (NBI).

A PROUD TRACK RECORD OF SUSTAINED GROWTH, WITH OPERATING PROFIT HAVING INCREASED BY AN ANNUAL COMPOUND RATE OF 10.5% OVER THE PAST 18 YEARS.

INTRODUCTION

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

The Lewis Group has continued to reap the benefits of its customer-centric business model and performed admirably in the prevailing credit retail environment and also relative to its competitors.

While retrenchments, unemployment and reduced working hours continued to impact consumers in our target market, economic pressures started to ease during the year. Food price inflation has declined, fuel prices have stabilised, higher real wage increases have been granted and lower income earners benefited from further tax relief granted in the Budget in February 2010.

The further decline in interest rates over the past year has been positive for the country's economic growth and has brought relief to debt-burdened consumers.

FINANCIAL PERFORMANCE

While the economic recovery is fragile, we do consider that there has been significant progress. This is reflected in the improving credit collections environment in the second half of the year and the group's stabilising debtor costs.

It is encouraging to report that the operating margin improved from 21.9% last year to 22.1% in these difficult times, translating into a 9.0% growth in operating profit to R907 million. The group has a proud track record of sustained growth, with operating profit having increased by an annual compound rate of 10.5% over the past 18 years. The operating margin has only been below 21% on two occasions during this period.

David Nurek
independent non-executive chairman

Earnings per share increased by 5.6% to 672.0 cents per share and the total dividend was maintained at 323 cents per share for the year. Further detail on the group's trading and financial performance is contained in the Chief Executive's Report and the Chief Financial Officer's Report.

BOARD AND MANAGEMENT

During the year our long-serving chief executive officer, Alan Smart, retired after 40 years with the group. In his 18-year tenure as chief executive officer Alan was instrumental in leading Lewis to its position as the country's pre-eminent furniture retail group. We echo the tribute that was paid to Alan in last year's annual report and on behalf of the group wish him a long and healthy retirement. Following his retirement Alan accepted the board's invitation to serve as a non-executive director. Accordingly his invaluable expertise and experience will not be lost to the group.

Johan Enslin was promoted to chief executive officer and appointed to the board as an executive director from 1 October 2009. Johan has been with the group for over 16 years and has extensive experience in managing the group's operations, having most recently served as chief operating officer. In the short time since his appointment Johan has already demonstrated his decisive leadership and strategic capability and my fellow directors join me in wishing him every success in leading the group.

The succession process in the chief executive's office was well managed and allowed for a seamless transition when Alan retired.

We also welcomed Zarina Bassa and Sizakele Marutlulle as independent non-executive directors during the year, which has increased the non-executive component of our board to seven. Both Zarina and Sizakele have strong skill sets and insights which will add valuable contibutions to our board deliberations.

The transformation profile of our board has also been enhanced and 57% of the non-executive directors are black and 43% are female.

GOVERNANCE AND SUSTAINABILITY

The group is committed to applying and complying with the King III code. An evaluation of King III has been undertaken and governance processes will be aligned in the new financial year.

As part of the implementation of the new code, the board has already approved changes to the group's governance structure. These include separating the current Audit and Risk Committee into specific committees for audit and for risk, as well as splitting the Remuneration and Nomination Committee into separate committees. This will allow these committees to devote more focused attention to their respective agendas.

We also recognise that sustainability management is a key component of corporate governance. The group supports the integrated sustainability reporting philosophy outlined in King III and will endeavour to integrate these principles into its sustainability programme.

Further detail is contained in the Corporate Governance Report and the Sustainability Report.

PROSPECTS

While trading conditions are showing early signs of improvement, the environment is expected to remain challenging in the year ahead as the country emerges from recession and the recovery could take longer than expected. Unemployment and the working of short time remains a reality.

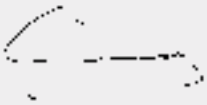
Job creation will be key to stimulating economic growth in the Lewis target market and the higher real wage increases granted to the public sector and several union groups in recent months should be positive for sales growth.

The group's debtor costs should moderate as the credit collections environment continues to improve.

A more aggressive store expansion programme will see the group open 40 to 45 new stores in the year ahead. This expansion will create between 400 and 450 new jobs. The group plans to expand its store base to 700 over the next three to four years.

APPRECIATION

The performance over the past year was truly a great team effort. On behalf of the board I would like to compliment the leadership team under Johan for their disciplined approach in applying the group's proven business model. I also thank our staff of almost 6 700 throughout the country for their commitment to meeting the needs of our customers. Thanks are also due to my board colleagues for their continued guidance and insight. I also extend my appreciation to our external stakeholders for their support, including our customers, suppliers and manufacturers, shareholders and the broader investment community, business partners and the media.



David Nurek
Independent non-executive chairman

CHIEF EXECUTIVE OFFICER'S REPORT

CONTINUE TO BENEFIT FROM OUR STRATEGY OF SOURCING QUALITY, EXCLUSIVE AND DIFFERENTIATED MERCHANDISE.

INTRODUCTION

It is a pleasure to report to shareholders for the first time since my appointment as chief executive officer and to reflect on the group's progress in what has been a challenging time for the economy and the retail industry.

The resilience of our business model was severely tested during the domestic recession which followed the global downturn of the past two years. However, Lewis Group recorded solid growth in revenue and profitability for the year as the early signs of improving economic conditions started to benefit consumers.

TRADING PERFORMANCE

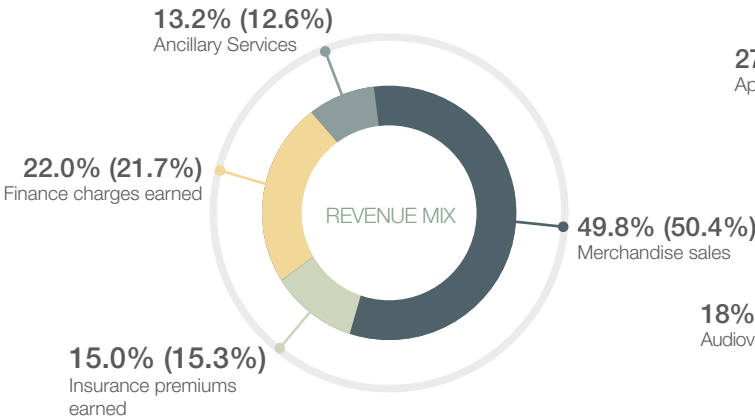
Improving market conditions and the increasing levels of disposable income of Lewis customers saw revenue rise by 8.0% to R4 111 million and merchandise sales by 6.5% to R2 046 million, aided by strong trading over the festive season.

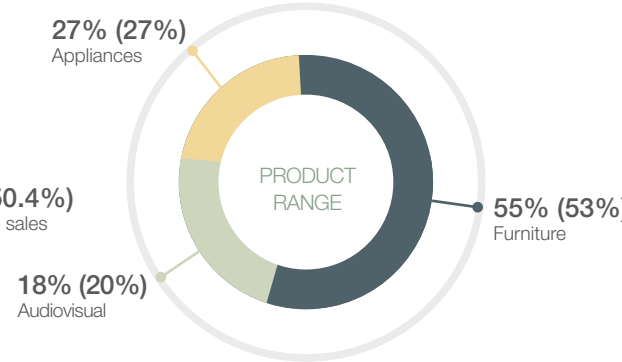
The group continued to pursue its strategy of sourcing quality, exclusive and differentiated furniture ranges. Our merchandising philosophy is based on the belief that the product offering drives customers into our stores, not the financial offering. The benefit of this strategy is reflected in the 8.5% increase in sales of the higher margin furniture and appliance category. Furniture now accounts for 55% (2009: 53%) of group sales.

Merchandise sales in our flagship brand, Lewis, increased by 7.7%. Best Home and Electric grew sales by 7.8%, lifted by higher furniture sales which now comprise 28% of the brand's total sales. Lifestyle Living sales declined by 10.4%.

Credit sales increased to 68.5% of total sales from 64.3% in the previous year, supported by merchandise initiatives and local promotions. The group will benefit from the annuity income from these higher credit sales into the future.

Johan Enslin
Chief executive officer





Customer loyalty remains a key driver of sales growth and in the past year 55% of credit-based sales were to existing customers, highlighting the effectiveness of the store-based customer re-serve programme.

Gross profit margin improved from 31.3% to 34.9% as the group recovered the currency losses reported at the half-year. After adjusting for currency losses, which are shown separately the net position improved from 31.9% to 33.4%.

Efficient stock management and successful product ranging resulted in the inventory turn improving from 5.8 to 6.0 times. The Lewis supply chain model is based on merchandise being delivered directly by suppliers to stores and Lewis does not operate distribution centres or central warehouses.

It is pleasing to report that the group improved its operating margin to 22.1% (2009: 21.9%) in the challenging trading and credit conditions of the past year.

DEBTOR MANAGEMENT

Debtor costs for the year increased to 10.9% of net debtors (2009: 10.0%) well within the target of 10% to 13% indicated at the half-year. The collection environment was difficult in the first six months. However, since half-year, collections improved and debtor costs stabilised. Debtor costs for the year increased by 28% reflecting an improvement on the half-year position which was 32% higher. Credit risk management strategies have been consistently applied and it remains company policy to never reschedule existing contracts. The impairment provision moved from 15.7% to 16.0%, improving on the level of 17.9% reflected at the half-year. Further detail is contained in the Credit Report on page 32.

Longer credit terms of mostly 30 months are only offered to top-rated customers on new contracts. Longer term contracts are now almost fully in the base. The payment performance of these contracts has generally been better than 24-month contracts.

While the credit application decline rate rose from 25.4% in 2009 to 27.5%, the decline rate remained stable between the first and second half and reflects the improving health of consumers. The group's centralised credit-granting process has been a core strength in this tough credit climate.

The unemployment level among the group's customer base is monitored monthly and has remained stable at around 3% over the past 18 to 24 months.

STORE EXPANSION

Our store footprint increased to 548 following the opening of ten Lewis and six Best Home and Electric stores and the closure of three stores during the year.

The smaller format Lewis outlets continued to show pleasing results. These small stores, which average around 250 m^2 compared to the average 400 m^2 of other stores, have a lower cost base and are more profitable. Lewis now has nine small format stores.

Our expansion target is to open 150 new stores in the next three to four years across Lewis and Best Home and Electric, with 40 to 45 outlets to be opened in the 2011 financial year.

Lifestyle Living, which is aimed at a higher income market than Lewis, has underperformed in recent years. Lifestyle Living which only accounts for 3% of group revenue, will be re-engineered. A new trading brand, My Home, has been launched to target aspirational customers in the LSM 7 – 8 categories. The new chain is aimed at attracting customers requiring more upmarket furniture, who have a need for in-store credit facilities.

My Home will adopt the successful Lewis business model and use the group's well-established credit infrastructure. The focus will be on differentiating the merchandise offering through exclusive and innovative ranging of more aspirational yet still traditional furniture.

Thirteen Lifestyle Living stores that fit the location strategy and target profile have been converted to My Home. A further five new stores will be opened during the next 12 to 18 months and a conservative expansion plan will be followed based on the performance of the new chain. Lifestyle Living will cease trading during the second half of the new financial year.

OUTLOOK

We are encouraged by the improving collection and sales trend which has continued into the new financial year. However, we recognise that the economic recovery is still in its early stage. Our customer base faces the challenge of continuing unemployment and the working of short time and we therefore remain cautious for the months ahead. The prudent management of our debtors' book remains a priority.

In the year ahead we look to maintain the momentum in merchandising and will continue to source exclusive products to increase the contribution of furniture as a percentage of the total sales mix. We believe the group is well positioned to benefit from a continued recovery in economic conditions.

The group is targeting to increase operating margin from the current 22% to 26% over the next three years. This increase in margin will be driven by the store expansion programme, improvement in gross profit and declining debtor costs.

APPRECIATION

I pay tribute to my predecessor, Alan Smart, for his contribution to the group in a career that spanned more than 40 years. I have worked closely with Alan over a number of years and thank him for his guidance, mentorship and for sharing the benefit of his considerable wisdom.

It is an honour and a privilege to lead a business of the stature of the Lewis Group.

Johan Enslin
Chief Executive Officer


Lewis
Electronic
BROCHURE
VIEW OUR FULL EXCLUSIVE RANGE
Maple and Mahogany Finish

CHIEF FINANCIAL OFFICER'S REVIEW

FOCUS ON DELIVERING COMPETITIVE RETURNS TO SHAREHOLDERS WITH THE DIVIDEND BEING MAINTAINED AT 323 CENTS PER SHARE.

INTRODUCTION

Lewis Group has continued to focus on delivering competitive returns to its shareholders and it is pleasing to report solid growth in revenue, an enhanced operating margin and stabilising debtor costs for the year under review.

The board has again shown its confidence in the group's long-term prospects and maintained the total dividend at 323 cents per share.

FINANCIAL PERFORMANCE

The review of the performance for the period should be read in conjunction with the annual financial statements on pages 64 to 115.

INCOME STATEMENT ANALYSIS

The group's revenue, comprising merchandise sales, finance charges, insurance income and ancillary services, increased by 8.0% to R4 111 million (2009: R3 807 million). Merchandise sales grew by 6.5% to R2 046 million (2009: R1 920 million), with comparable store sales growth at 4.5% and price inflation averaging 3% for the period.

Revenue from finance charges rose 9.7% and insurance revenue increased by 6.0% owing to the earn-out of longer term contracts. Ancillary services, which comprise the monthly service and initiation fees charged in terms of the National Credit Act, increased by 13.1% in line with the growth in credit sales.

Gross profit margin improved from 31.3% to 34.9% fully recovering currency losses reported at the half-year. After adjusting for currency losses, which reflect in finance costs, the net position improved from 31.9% to 33.4% as shown below:

Les Davies
Chief financial officer

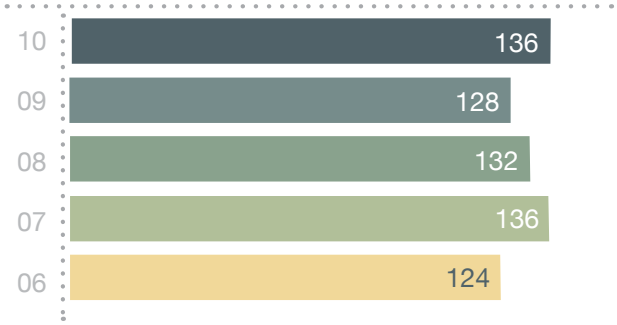
	2010	2009
Gross profit	**34.9%**	31.3%
Exchange gains/(losses)	**(1.5%)**	0.6%
All in gross	**33.4%**	31.9%

Operating costs, excluding debtor costs, increased by 9.2%. The main contributors to this increase were union negotiated wage settlements, increases in variable remuneration on the improved trading results, IT system upgrades and higher volumes of loss of employment claims in Monarch. Operating costs as a percentage of revenue moved from 34.6% in 2009 to 35.0% for the reporting period.

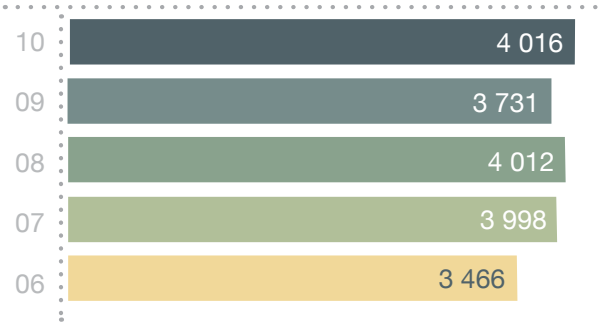
Debtor costs for the year were 10.9% of net debtors (2009: 10.0%). Debtor costs comprise bad debts and repossession losses net of recoveries and the movement in the impairment provision. During the year certain non-performing accounts, against which impairment provisions of approximately 95% had been raised on the outstanding balances, were written off. The release of the impairment provision against these accounts compensated for the write-off and the effect on operating profit was minimal.

Debtor costs have shown a steadily improving trend as the collection environment started to recover, increasing by 25% for the second half following an increase of 32% for the first half. The debtor cost increase for the previous financial year

OPERATING PROFIT PER EMPLOYEE



OPERATING PROFIT PER SQUARE METRE



was 78%. This declining trend is expected to continue and debtor costs should normalise at around 8% of net debtors over the next three years.

The operating profit margin improved to 22.1% (2009: 21.9%) which translated into a 9.0% increase in operating profit to R907 million (2009: R832 million).

Investment income of R78 million comprises interest income, dividend income on investments held by Monarch and includes realised equity gains of R24 million.

Earnings per share increased by 5.6% to 672 cents per share and headline earnings per share were 1.9% higher at 643 cents. The calculation of headline earnings per share excludes investment equity gains of R24 million in Monarch.

SEGMENTAL PERFORMANCE

Following the adoption of IFRS 8 (Operating Segments), the basis of disclosing segmental financial information has changed. The group now discloses segmental information for Lewis, Best Home and Electric and Lifestyle Living. This is the financial information regularly reviewed by the chief operating decision makers of the group and reflects the customer-centric structure of the operations based on the premise that the selling of furniture and the provision of credit are interdependent. Segmental information was previously provided for the group's retail, risk services and financial services operations.

2010	Group	Lewis	Best Home and Electric	Lifestyle Living
Revenue (Rm)	**4 111**	**3 470**	**504**	**137**
Revenue growth (%)	**8.0**	**8.3**	**10.8**	**(7.7)**
Operating profit (Rm)	**907**	**809**	**96**	**2**
Operating margin (%) FY:10	**22.1**	**23.3**	**19.1**	**1.7**
FY:09	**21.9**	**23.0**	**20.1**	**2.8**

- **Lewis** increased revenue by 8.3% and accounted for 84% of the group's total revenue. Operating margin increased from 23.0% to 23.3%.
- **Best Home and Electric** grew revenue by 10.8% with furniture being a higher proportion of the mix. Operating margin contracted to 19.1%.
- **Lifestyle Living** reported a less favourable performance in terms of revenue and profitability. As outlined by the chief executive officer this business will cease trading during the second half of the new financial year. A new trading brand, My Home, will be launched in the first half of the new financial year to target aspirational customers in LSM 7 – 8 categories who have a need for in-store credit facilities.

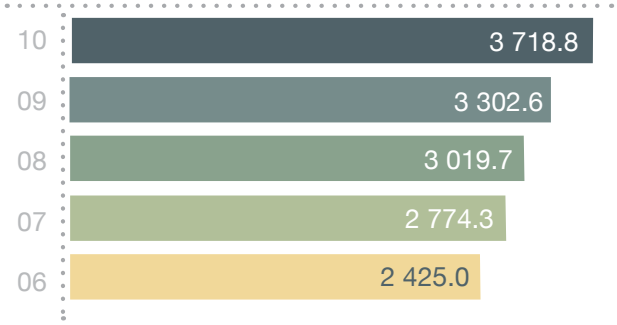
BALANCE SHEET REVIEW

Insurance investments increased by R160 million to R894 million. These investments are managed on behalf of Monarch by Sanlam with the portfolio asset allocation being 35% blue-chip listed equities and 65% cash and bonds.

Inventory levels were well controlled. The stock turn improved from 5.8 to 6.0 times through efficient stock management and successful product ranging.

Trade and other receivables grew by 18% over the year owing to a higher number of longer term contracts. The group has now reached the targeted level of longer term business. As this is now in the base we do not expect debtor growth to exceed sales growth on a like-for-like basis for next year.

NET ASSET VALUE PER SHARE



The group's net asset value per share increased by 12.6% to R37.19. The return on average assets managed (pre-tax) was 21.9% and the return on average equity (after tax) 19.2%. These balance sheet ratios remain well above the group's weighted average cost of capital of 12%.

CASH AND CAPITAL MANAGEMENT

Shareholders will note that the total dividend for the year has been maintained at 323 cents per share, comprising an interim dividend of 144 cents and a final dividend of 179 cents.

The gearing ratio increased to 27.5% (2009: 23.5%) as a result of the additional funding required for the debtors' book and the insurance business arising from the longer term credit business on the book. The gearing ratio remains well below management's maximum level of 35% and is expected to decline over the next two years.

At year-end the group was effectively ungeared, holding insurance investments to cover interest-bearing borrowings as follows:

	2010 Rm	2009 Rm
Insurance investments and cash	**956**	789
Interest-bearing borrowings	**961**	737
Net cash position	**(5)**	52

The group is currently focusing its resources on the more aggressive store expansion plan and no share repurchases are planned for the year ahead. Management is also mindful of the liquidity in the Lewis Group share.

YEAR AHEAD

Capital expenditure of R80 million has been budgeted for the 2011 financial year, with the majority to be invested in the ongoing replacement of delivery vehicles and computer equipment. The planned store expansion programme will not significantly impact capital expenditure requirements.

The store footprint is expected to increase by the opening of 40 new stores across Lewis and Best Home and Electric and a further five for the new chain, My Home.

We would like to thank our shareholders and the broader investment community both locally and internationally for their ongoing interest in the group.

Les Davies
Chief Financial Officer

EXECUTIVE COMMITTEE

Johan Enslin (36)
Chief Executive Officer
Executive Director of Board of Lewis Group

Johan Enslin is the chief executive officer and his biography is on page 12.

Les Davies (54)
CA(SA)
Chief Financial Officer

Les Davies is the chief financial officer and his biography is on page 12.

Neil Jansen (38)
MBL (Unisa), Diploma in Labour Law
Human Resources Director

Neil joined Lewis as HR Director and as a member of the Lewis Stores (Proprietary) Limited board on 1 September 2008. Neil is responsible for all human resource and training aspects of the business.

Neil is an HR practitioner with 16 years experience. He spent 10 years with the Transnet Group from 1994 to 2003. During his tenure at Transnet he climbed the ranks from a Trainee HR Practitioner at Spoornet Port Elizabeth to a Deputy Executive Manager at Protekon Cape, the Engineering Division of Transnet. Whilst at Protekon, he completed a Masters degree in Business leadership at the UNISA School of Business Leadership in 2003.

In 2004 he joined the Naspers Group, initially as Group HR Manager for Via Africa and later served three years as General Manager Human Resources for Media 24, the print media division of Naspers.

Derek Loudon (47)

Merchandising Director

Derek was appointed to the board of Lewis Stores (Proprietary) Limited on 8 October 2008. He is responsible for the group's merchandising functions, which includes inter alia, the sourcing of merchandise, related logistics and product quality control.

His retail experience extends from 1981. Derek spent 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 (Proprietary) Limited 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.

Derek joined Lewis as General Manager: Merchandise in May 2000.

Charles Irwin (56)

Group IT Director

Charles has been IT Director of Lewis Stores (Proprietary) Limited since March 1999. In his capacity, he is responsible for ensuring the maintenance and development of the group's information systems.

Charles has spent his entire working career in the retail industry, specialising for the last 20 years in information technology. During his earlier career, he had operational experience in general retail management. Prior to joining Lewis Stores in 1998, he spent nine years at McCarthy Limited.

Brett van Aswegen (35)

BCom, MBA

Credit Risk Director

While completing his BCom degree part time through UNISA, Brett started working for the Edcon Group in 1994. After having held various positions within Edcon Credit Division, Brett joined Standard Bank where he worked in Operational Risk within the Retail Banking Division before joining the Lewis Group in 1999 as the Group Risk Manager.

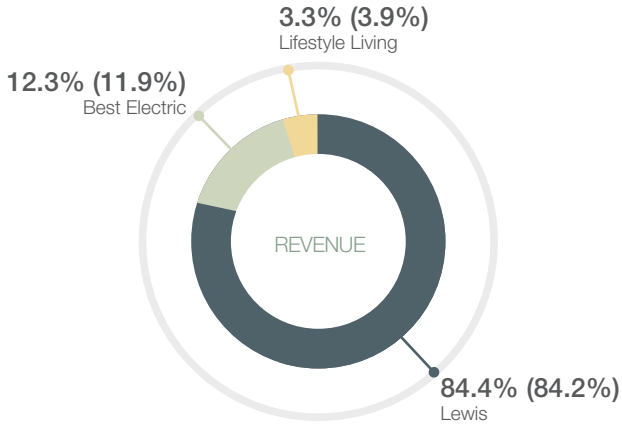
Since joining Lewis, Brett has seen through the implementation of a centralised credit application processing system, introduced credit scoring and customer credit limit facilities and implemented an account management system focusing on the areas of behavioural scoring, limit management and strategic direct marketing. Brett was promoted to General Manager of Customer Management in 2002, completed his MBA through UCT in 2003 and was appointed to the board of Lewis Stores (Proprietary) Limited as Credit Risk Director on 1 September 2006.

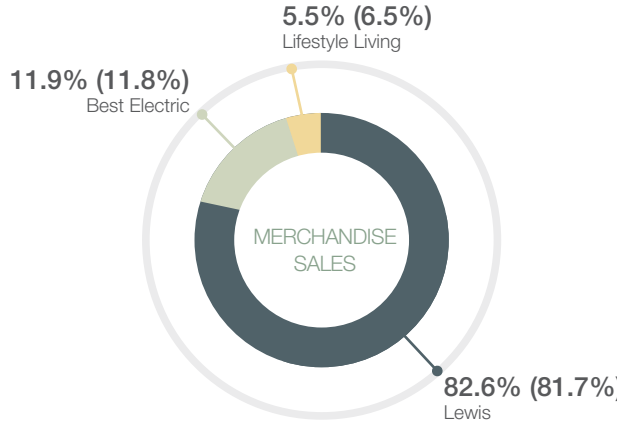
RETAIL BRANDS

LEWIS GROUP HAS A NETWORK OF 548 STORES ACROSS ITS THREE RETAIL CHAINS:

- **Lewis** is South Africa's largest furniture brand and contributes 84% of the group's merchandise sales.
- **Best Home and Electric** accounts for 12% of group sales and has experienced rapid store expansion in recent years.
- **Lifestyle Living** is a niche retailer of contemporary furniture.

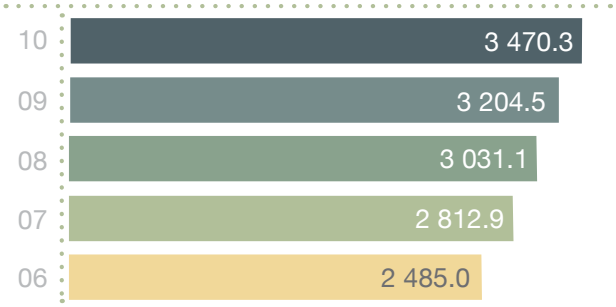
These retail brands are supported by Monarch Insurance, the group's short-term insurer.



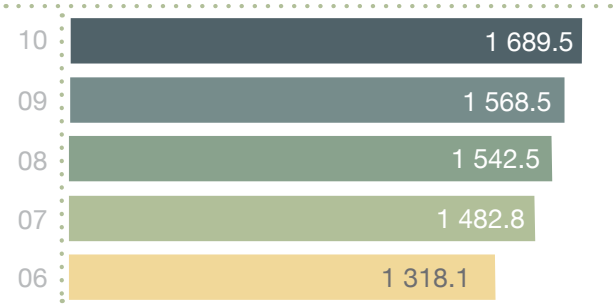


LEWIS

REVENUE



MERCHANDISE SALES



Lewis sells a range of household furniture, electrical appliances and home electronics to customers in the LSM 4 to 7 categories. Each store carries a basic range of merchandise and stores then select a further optional range to cater for specific markets and regional differences. Lewis outlets are generally situated in main streets and town centres, with some presence in shopping centres. Lewis has 436 stores, including 47 stores in the neighbouring countries of Botswana, Lesotho, Namibia and Swaziland.

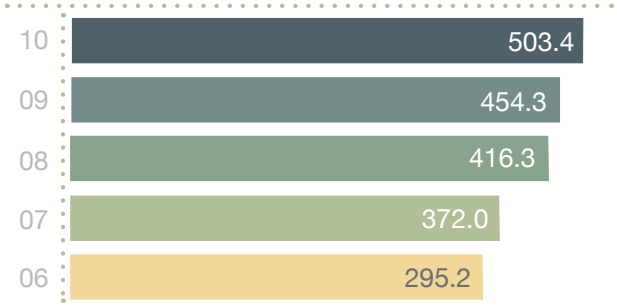
The smaller format store introduced in the previous financial year has enabled the chain to gain access to high traffic areas at more affordable rentals. This store format offers customers key merchandise lines, with the full range available on electronic catalogue and display screens in-store. These small stores average 250 m² compared to the average 400 m² of the conventional Lewis store. Lewis now has nine small format stores.

Performance

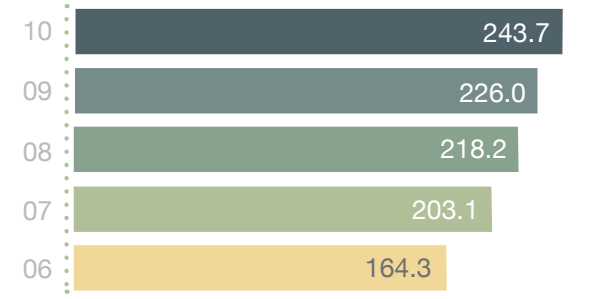
		2010	2009
Revenue	Rm	**3 470.3**	3 204.5
Revenue growth	%	**8.3**	5.7
Merchandise sales	Rm	**1 689.5**	1 568.5
Merchandise sales growth	%	**7.7**	1.7
Comparable store merchandise sales growth	%	**5.4**	(0.4)
Operating profit	Rm	**808.7**	737.0
Operating profit margin	%	**23.3**	23.0
New stores opened during year		**10**	10
Number of stores		**436**	427
Total trading space	m²	**203 598**	201 458
Annual revenue per m²	R'000	**17.0**	15.9
Credit sales	%	**71.2**	67.9

BEST HOME AND ELECTRIC

REVENUE



MERCHANDISE SALES



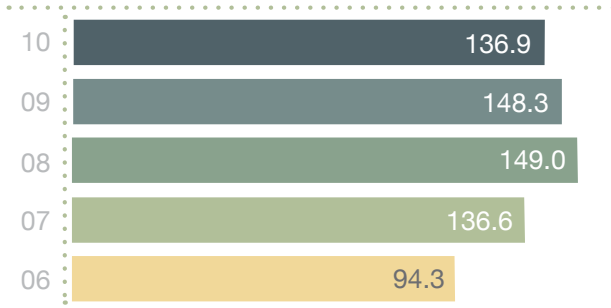
Best Home and Electric is a retailer of electrical appliances, sound and vision equipment and selected furniture, targeting customers in the rapidly growing LSM 4 to 7 groups. The chain offers exclusive branded merchandise which is differentiated from Lewis to create a distinctive electrical goods brand. Furniture lines are solid mostly through the electronic catalogue and now accounts for 28% of sales in the chain. Stores are smaller than Lewis stores (150 m² in size) and are generally situated in high traffic areas with high trading densities.

Performance

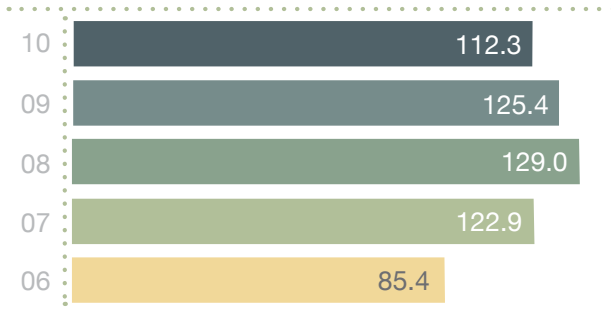
		2010	2009
Revenue	Rm	**503.4**	454.3
Revenue growth	%	**10.8**	9.1
Merchandise sales	Rm	**243.7**	226.0
Merchandise sales growth	%	**7.8**	3.6
Comparable store merchandise sales growth	%	**4.3**	1.7
Operating profit	Rm	**96.2**	91.2
Operating profit margin	%	**19.1**	20.1
New stores opened during year		**6**	3
Number of stores		**92**	88
Total trading space	m²	**13 458**	12 829
Annual revenue per m²	R'000	**37.4**	35.4
Credit sales	%	**67.6**	60.3

LIFESTYLE LIVING

REVENUE



MERCHANDISE SALES



Lifestyle Living is a niche retailer aimed at consumers in the LSM 8 to 10 market. Following continued underperformance Lifestyle Living will cease trading during the second half of the new financial year.

Performance

		2010	2009
Revenue	Rm	**136.9**	148.3
Revenue growth	%	**(9.2)**	(0.5)
Merchandise sales	Rm	**112.3**	125.4
Merchandise sales growth	%	**(10.4)**	(2.8)
Comparable store merchandise sales growth	%	**(8.3)**	(6.5)
Operating profit	Rm	**2.3**	4.1
Operating profit margin	%	**1.7**	2.8
Number of stores		**20**	20
Total trading space	m^2	**8 835**	8 815
Annual revenue per m^2	R'000	**15.5**	16.8
Credit sales	%	**31.4**	27.4

MY HOME

A new trading brand, My Home, has been launched to target aspirational customers in the LSM 7 – 8 categories. This new chain is aimed at attracting customers requiring more upmarket furniture who have a need for in-store credit facilities. My Home will adopt the successful Lewis business model and use the group's well-established credit infrastructure. The focus will be on differentiating the merchandise offering through exclusive and innovative ranging of more aspirational yet still traditional furniture.

MONARCH INSURANCE COMPANY LIMITED

Monarch offers a range of short-term insurance products to the group's customers purchasing merchandise on credit.

Insurance cover is provided for the settlement of customers' outstanding debt in the event of death or permanent disability. Other insurance products cover the replacement of goods as a result of any form of accidental loss, such as fire, theft or natural disaster. A retrenchment cover benefit is also available.

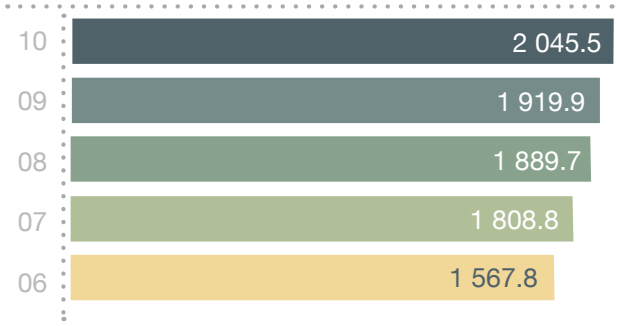
Customers purchasing insurance products through Monarch qualify for free membership of the Lewis Club.

Monarch is registered with the Financial Services Board and operates under a restricted short-term insurance licence. The Short-term Insurance Act requires the company to hold assets to meet future financial obligations and total insurance assets were R894 million at year-end.

The investment of the insurance portfolio is outsourced to Sanlam Investment Management (SIM), with the investment and asset allocation strategies being determined in consultation with the boards of Lewis and Monarch. Funds may only be invested in conservative asset classes and within prescribed regulatory limits. At year-end the portfolio consisted of 35% equities and 65% cash and bonds.

MERCHANDISING

MERCHANDISE SALES (R MILLIONS)



Innovative product sourcing both locally and internationally enables the group to offer customers exclusive and distinctive furniture ranges at affordable prices.

The merchandising strategy has focused on increasing sales of the higher margin furniture product category. In the past year furniture sales grew by 9.1% and the contribution from furniture increased to 55% of total sales (2009: 53%). Appliance sales (27% of merchandise) increased by 7.3% while electronic sales (18% of sales), which is a discretionary purchase spend in tough economic conditions, were flat. Product price inflation averaged 3% for the year.

Gross profit margin improved from 31.3% to 34.9% fully recovering currency losses reported at the half-year. After adjusting for currency losses, which are shown separately, the net position improved from 31.9% to 33.4%.

An electronic merchandise catalogue is displayed in all stores. As the complete merchandise range cannot be stocked in stores, customers are able to navigate their way through the full range on a large touch screen, as well as view all colour and fabric options.

The import programme enables the group to offer distinctive and exclusive merchandise ranges which have the latest designs, manufacturing techniques and fashion trends. Direct imports accounted for 24% of total purchases in the period under review.

International factories are able to accommodate a broader range of developmental designs and have access to a wider variety and diversity of raw materials, which allows for product differentiation.

Imports offer price and design advantages and mitigate the risk of disruption in local supply. As part of the group's commitment to quality, all products are supported by local and overseas after-sales service.

The supply chain model is based on merchandise being delivered directly by suppliers to stores. Stores are responsible for deliveries to customers, with an average of 90% of deliveries completed within 24 hours of the sale.

Efficient stock management and successful product ranging during the year resulted in the inventory turn improving from 5.8 to 6.0 times.

MARKETING

The group's marketing strategy has proved effective in achieving high levels of customer loyalty, strong repeat sales and consistently high consumer awareness through the creative use of mainstream media advertising and non-traditional marketing strategies.

Targeted marketing campaigns are tailored for the Lewis target market. These are aimed at communicating the group's customer promise of value for money, quality, merchandise exclusivity and personalised service to current, settled and potential customers.

Targeted brochure distribution is undertaken in core trading areas each month. Brochures feature the depth of the merchandise range while leaflets featuring promotional lines are distributed in high traffic commuter areas.

In-store promotions are effective in retaining and regaining customers. Selected customers are invited by the store management to special in-store events and exposed to the Lewis product offering.

Customer loyalty is entrenched through the Lewis Club. Through this customer loyalty programme, over 600 000 Lewis customers receive the Club magazine bimonthly which includes competitions, coupons and merchandise give-aways for readers. Membership of the Lewis Club is free to customers taking out insurance when purchasing merchandise.

The high level of repeat sales made to current and settled customers reflect the level of customer loyalty to the group's brands. A re-serve programme identifies current customers for further credit extension based on payment history and current level of debt to the group. Marketing campaigns are targeted at these customers.

The creative and media functions within the Lewis marketing division have been outsourced to specialist agencies. This is aimed at enhancing the quality of the creative product, ensuring effective media strategy, planning and buying across all media and improving cost efficiencies.

CREDIT

THE EARLY SIGNS OF A TURNAROUND IN THE CREDIT CYCLE APPEARED IN THE SECOND HALF OF THE YEAR AS THE COLLECTION ENVIRONMENT IMPROVED AFTER A TOUGH FIRST SIX MONTHS. THE RATE OF INCREASE IN DEBTOR COSTS STARTED TO SLOW IN THE SECOND HALF.

INTRODUCTION

Debtor costs for the year increased to 10.9% of net debtors (2009: 10.0%), well within the range of 10% to 13% indicated at the half-year. The improving collection environment is encouraging and debtor costs are expected to reduce to around 8% of net debtors over the next three years as conditions improve further.

While the credit application decline rate rose from 25.4% in 2009 to 27.5% in 2010, the decline rate remained stable between the first and second half and reflects the improving health of consumers.

Signs of an upswing in the economy are reflected in the increasing volume of credit applications. The average growth in credit applications for the financial year was 17.8%, with volumes for the first half increasing by 13.1% and 22.0% for the second half.

Following the introduction of the National Credit Act in 2007 the group introduced longer term contracts for top-rated customers over periods of mostly 30 months. These accounts have performed better than 24-month accounts while generating additional revenue for the group. The targeted level of longer term business has been reached. As this is now in the base we do not expect debtor growth to exceed sales growth on a like-for-like basis next year.

Credit ratios and statistics

		2010	2009
Credit sales as % of total sales	%	**68.5**	64.3
Net debtors book	Rm	**3 971.0**	3 387.8
Increase in net debtors book	%	**17.2**	15.2
Doubtful debt provision	Rm	**635.4**	532.7
Doubtful debt provision as % of net debtors book	%	**16.0**	15.7
Debtor costs	Rm	**434.2**	338.8
Debtor costs as a percentage of net debtors	%	**10.9**	10.0
Slow-paying and non-performing accounts as a % of net debtors book	%	**27.3**	28.0
Arrear instalments on slow-paying and non-performing accounts as a % of net debtors book	%	**19.8**	20.9
Arrear instalments on satisfactory paid accounts as a percentage of net debtors book	%	**9.3**	9.5
Doubtful debt provision coverage on non-performing accounts	%	**74.9**	71.3
Credit application decline rate	%	**27.5**	25.4

CREDIT RISK MANAGEMENT

The group's centralised credit-granting process has been a core strength in managing credit risk through the downturn in the economic cycle. Credit risk management strategies have been consistently applied and it remains company policy to never reschedule contracts.

Credit applications are transmitted to head office where the credit application scorecards are applied. Credit policies are used to determine the credit limit, term and deposit required for each customer. The group currently uses 15 risk scorecards, while 76 risk segments have been defined for the application of credit policies across the group.

Application risk scorecards predict the risk of a potential new customer becoming delinquent in the future taking into account the applicant's payment record with other credit providers. Behavioural scorecards predict the risk for repeat customers and are based on customers' payment behaviour with Lewis as well as outside credit providers. However the majority of the predictive data is derived from the customers' payment behaviour with the group.

Current and new customers are referenced at the credit bureaux every month in order to ensure changing risk profiles are immediately taken into account and to ensure that affordability calculations are accurate and up to date. All application and behavioural scorecards were reviewed during the year to take account of the current economic climate and levels of consumer indebtedness.

CREDIT COLLECTION

Lewis operates a decentralised credit collection process, with stores responsible for the cash collection and follow-up of defaulting customers.

This decentralised model is highly efficient as stores are located close to where the customers work, shop, commute and live. Customers pay their monthly accounts in cash at the store and the convenient locations make it easy to visit the stores.

Store collection staff have a direct relationship with the customers who are often from the same community and this benefits the collection rate.

The store-based collections model has proved its worth through the economic slowdown of the past two years as the monthly contact with customers provides an early indication of payment difficulties. It is more challenging to determine the financial position of customers where a credit provider uses a centralised, call centre-based collections approach.

CUSTOMER RATINGS

Lewis operates a payment rating system which assesses customer payment behaviour over the lifetime of an account. Customers are assessed monthly based on their payment behaviour and allocated one of 13 lifetime payment ratings. Customer accounts are impaired monthly based on the performance of the accounts. These payment categories have been summarised into four main groupings

of customers. The average impairment provision on non-performing customers increased from 71.3% to 74.9% in 2010.

The improving trend in payment performance is reflected in the following:

- "Satisfactory paid" customers now comprise 72.7% of net debtors compared to 72.0% last year.
- The impairment provision at 16% improved on the level of 17.9% reflected at half-year.
- The percentage of non-performing customers has declined from 19.8% to 18.8% of net debtors.

Debtors payment analysis			Number of customers		Impairment provision %		NCA over 24 months
			2010	2009	2010	2009	
Satisfactory paid	Customers fully up to date including those who have paid 70% or more of amounts due over the contract period	No. %	498 370 72.7%	497 296 72.0%	0%	0%	237 124 79.2%
Slow payers	Customers who have paid between 70% and 65% of amounts due over the contract period	No. %	58 476 8.5%	57 042 8.2%	23%	20%	19 633 6.5%
Non-performing customers	Customers who have paid between 65% and 55% of amounts due over the contract period	No. %	48 446 7.1%	50 300 7.3%	43%	42%	16 283 5.4%
Non-performing customers	Customers who have paid 55% or less of amounts due over the contract period	No. %	80 417 11.7%	86 448 12.5%	94%	88%	26 533 8.9%
			685 709	691 086	16.0%	15.7%	299 573

CORPORATE GOVERNANCE

INTRODUCTION

Lewis Group is committed to maintaining a culture of effective corporate governance to ensure the long-term sustainability of the business. The group therefore embraces the principles of integrity, transparency and accountability in its dealings with all stakeholders.

Governance structures and processes are regularly reviewed in response to changing requirements and to ensure alignment with best practice.

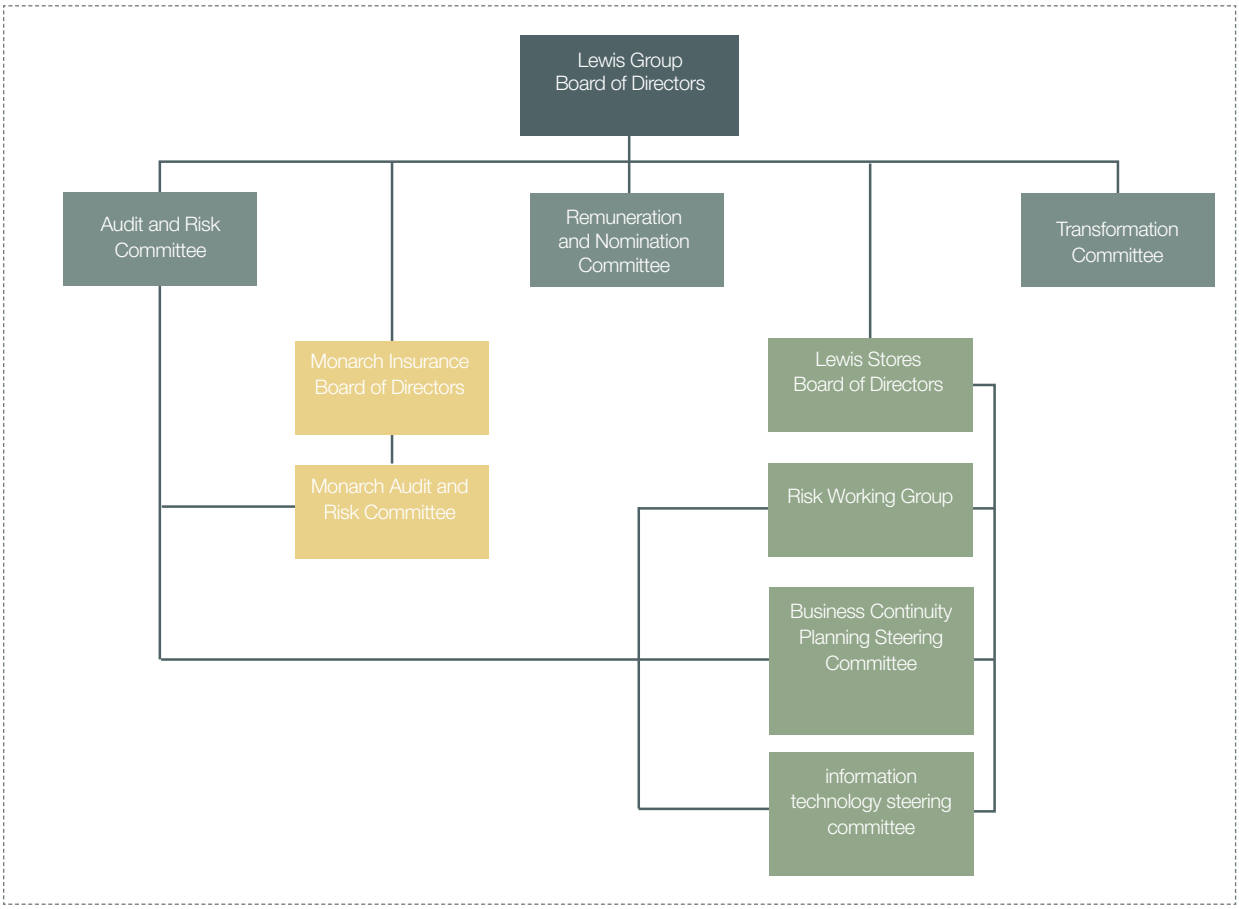
The board confirms that the company complies with all relevant legislation, regulation and codes, including the Code of Corporate Practices and Conduct as set out in the second King Report on Corporate Governance (King II) and the JSE Listings Requirements.

The group welcomes the introduction of the King III Report and plans to move to full compliance with the code. An evaluation of the principles of King III against current practice has been completed and amendments and enhancements to governance processes will take place in the new financial year.

As part of the implementation of King III, the board approved changes to its governance structure at the end of March 2010. These changes include separating the current Audit and Risk Committee into specific committees for audit and for risk, as well as splitting the Remuneration and Nomination Committee into separate committees.

GOVERNANCE STRUCTURE

The following board and committee structure applied for the period under review:



BOARD OF DIRECTORS

Board responsibilities

A formal board charter confirms that the directors are accountable to shareholders and are responsible for the following:

- adopting strategic plans;
- approval of budgets;
- monitoring operational performance against approved budgets;
- ensuring effective risk management and internal control;
- overseeing director selection, orientation and evaluation;
- approving significant accounting policies;
- ensuring legislative and regulatory compliance;
- assessing the sustainability of the group as a going concern;
- approving the annual and interim financial statements;
- ensuring balanced and understandable communication to stakeholders; and
- matters considered crucial for business success.

A clear division of responsibility is embedded in the board charter. The board has delegated authority to the chief executive officer and the directors of Lewis Stores for the implementation of the strategy and the ongoing management of the business.

Board composition

Lewis Group has a unitary board structure consisting of seven non-executive directors and two full-time, salaried executive directors. Background information on the directors appears on pages 12 and 13 of this report.

The following changes were made to the board during the year:

- Alan Smart, the chief executive officer, retired on 30 September 2009 and continues to serve on the board as a non-executive director.
- Johan Enslin succeeded Alan Smart as chief executive officer with effect from 1 October 2009 and was appointed to the board as an executive director.
- Zarina Bassa and Sizakele Marutlulle were appointed as independent non-executive directors from 1 October 2009.

Six of the non-executive directors, including the chairman, are currently classified as independent in terms of both the King II definition and the guidelines of the JSE Listings Requirements. The remaining non-executive director, Alan Smart, is not classified as independent as he has served as an executive of the group within the last three years.

Directors do not have a fixed term of appointment and all directors are subject to retirement by rotation and re-election by shareholders at least every three years. Directors appointed during the year are required to have their appointments ratified at the following AGM. Executive directors are subject to a 12-month notice period.

Directors are invited to serve on the board based on their knowledge, experience, independence and ability to contribute to board level debate.

Board meetings

The board meets at least four times a year and further meetings may be convened. No additional meetings took place during the year under review. Meetings are conducted in accordance with formal agendas, ensuring that all substantive matters are addressed and monitored. Any directors may request additional items to be included on the agenda.

Newly-appointed directors participate in an induction programme which outlines their fiduciary responsibilities and provides company and industry background information.

Board evaluation

All directors participate in the annual evaluation of the board's performance. The questionnaire-based evaluation covers the board's role and agenda setting; the size, independence and composition of the board; director orientation and development; board meetings; board committees; board accountability and governance practices. The process also includes an assessment of the performance of the chairman and the chief executive officer. In addition the chairman has individual sessions with each director.

Company secretary

The company secretary acts as adviser to the board and plays a pivotal role in ensuring compliance with regulations, the induction of new directors and providing advice to directors on governance, compliance and their fiduciary responsibilities.

The directors have unrestricted access to the advice and services of the company secretary. They are entitled to seek professional advice at the company's expense after consultation with the chairman of the board. Directors also have unrestricted access to all company information and may meet independently with management.

BOARD COMMITTEES

The board of directors has delegated specific responsibilities to three board committees. The committees are all chaired by independent non-executive directors. Each committee has a charter and terms of reference and the directors confirm that the committees have functioned in accordance with these written terms of reference during the financial year.

Lewis Group Audit and Risk Committee	
Purpose and function	**Composition**
• 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 on non-audit services. • Assessing the independence and objectivity of the external auditors. • Considering significant differences of opinion between management and external auditors. • Reviewing the adequacy of internal control and risk management. • Ensuring regulatory compliance. • Assessing the economic, environmental and social sustainability of the group. • Reviewing the financial reporting system, evaluating and approving accounting policies and the financial information issued to stakeholders in terms of IFRS.	Chairman – Hilton Saven The committee consists of four independent non-executive directors. The directors are financially literate and suitably qualified to perform their role. Meetings are also attended by the chief executive officer, chief financial officer, company secretary, internal audit executive and the external auditors. **Meetings** Four per year

Lewis Group Remuneration and Nomination Committee

Purpose and function	Composition
• Developing a remuneration philosophy. • Ensuring senior executives are fairly rewarded. • Reviewing and approving compensation of executive directors, non-executive directors and senior executives. • Recommending non-executive directors' fees for shareholder approval. • Approving the award of share incentives. • 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.	Chairman – David Nurek The committee consists of four independent non-executive directors. The chief executive officer attends meetings at the invitation of the committee. **Meetings** Twice per year

Lewis Group Transformation Committee

Purpose and function	Composition
• Developing and maintaining a transformation strategy. • Approving the transformation programme. • Setting targets in terms of the Codes of Good Practice of the Department of Trade and Industry (DTI). • Evaluating the group's performance against the DTI scorecard. • Confirming legislative compliance.	Chairperson – Fatima Abrahams The committee consists of two independent non-executive directors, together with the chief executive officer, merchandising director, human resources director and corporate social responsibility manager. **Meetings** Twice per year

MONARCH INSURANCE COMPANY LIMITED (MONARCH)

Monarch is the group's short-term insurer. Knowledge and experience of short-term insurance is considered in appointing directors to the board. Two of the non-executive directors, Robert Shaw and Ray Sanger, provide insurance advisory services to Monarch.

A formal report on the investment portfolio by Sanlam Investment Management is presented at each board meeting, covering market conditions and expectations, asset allocation, investment returns, review of the investment portfolios and recommendations on the investment strategy.

Monarch Board	
Purpose and function	**Composition**
• Approval and oversight of strategic plans for the insurer within the parameters of the overall strategic direction of the group. • Approval of budgets. • Monitoring operational performance against budgets. • Regular review of underwriting criteria. • Adoption of asset allocation strategies for the investment portfolio, based on recommendations from Sanlam Investment Management who manages the portfolio on Monarch's behalf. • Review of the performance of the investment portfolio against benchmarks. • Ensuring regulatory compliance. • Ensuring effective risk management and internal control. • Assessing director selection, orientation and evaluation. • Approving significant accounting policies. • Approving the annual financial statements.	Chairman – Alan Smart The board consists of four non-executive directors and one executive director. **Meetings** Four per year

Monarch Audit and Risk Committee	
Purpose and function	**Composition**
• Reviewing the audit plan relative to the group's audit plan. • Providing guidance on non-audit services. • Ensuring regulatory compliance. The committee is also responsible for the group's compliance with the Financial Advisory and Intermediary Services Act. • Reviewing the financial reporting system, evaluating and approving accounting policies and approving the financial statements. • Addressing risks specific to the company that have been identified in the group risk management policies.	Chairman – Hilton Saven The committee consists of four non-executive directors. Meetings are attended by the chief financial officer, company secretary, the group's internal audit executive and external auditors. **Meetings** Four per year

LEWIS STORES (PTY) LIMITED

Lewis Stores (Proprietary) Limited is the main trading subsidiary of the group and operational responsibility has been delegated to the Lewis Stores board for the ongoing management of the business.

Lewis Stores Board	
Purpose and function	**Composition**
• Adoption of strategic plans. • Providing strategic direction to senior management. • Monitoring operational performance and management. • Preparation and integrity of financial statements and all related information. • Maintaining adequate accounting records. • Adequately safeguarding, verifying and maintaining accountability of assets. • Monitoring key performance indicators of the business. • Ensuring regulatory and legislative compliance. • Risk management. • Developing a corporate code of conduct. • Assessing composition and effectiveness of board.	Chairman – Johan Enslin The board consists of six executive directors, namely chief executive officer, chief financial officer, directors of credit risk, merchandising, human resources and information technology. **Meetings** Four per year

Governance committees of Lewis Stores

- Executive Committee consists of 14 members, including the six directors of Lewis Stores, and the heads of key areas of operation within Lewis. The committee meets three times a year in conjunction with the Lewis Stores board meetings.
- Risk Working Group (RWG) conducts a risk self-assessment on a biannual basis to evaluate any change in business risks and identifies emerging risks which may require mitigation. Following each assessment an appropriate course of action is agreed to mitigate or manage the risks identified. Responsibility for each risk is assigned by the RWG to the appropriate executive or line manager (refer to the Risk Management Report on page 46).
- Business Continuity Planning Steering Committee manages the business continuity plan (BCP) which assesses potential environmental disasters, disruptions, loss of utilities and services, equipment or system failure, serious information security incidents and other emergency situations. The BCP covers all the key business processes identified as critical to the functioning of the group. The plan is tested periodically in a simulated environment. The committee comprises the chief executive officer, chief financial officer and IT director.
- Information Technology Steering Committee meets quarterly and comprises the chief executive officer, chief financial officer, IT director as well as business systems and IT operations executives. The committee focuses on the following IT-related issues: strategic alignment of the business; delivering value by optimising expenditure and proving value; IT risk management which provides for disaster recovery as well as the safeguarding of IT assets; and unlocking of business knowledge. The committee also oversees progress on strategic projects to ensure efficient delivery of new systems.

BOARD AND COMMITTEE ATTENDANCE

Lewis Group

Non-executive directors	Board	Audit and Risk	Remuneration and Nomination	Transformation
Number of meetings	4	4	2	2
D M Nurek+	4	4	2	2
F Abrahams	4		2	2
Z Bassa*	1/2	1/2		
S Marutlulle*	2/2			
H Saven	4	4	2	
A J Smart #	4	4°	1/1§	
B J van der Ross	4	4	2	
Executive directors				
J Enslin*	4	4°	1°	2
L A Davies	4	4°		
Management				
N Jansen				2
D Loudon				2
S Röhm				2

+ Chairman
* Appointed 1 October 2009
# Retired as chief executive officer with effect from 30 September 2009 and appointed as a non-executive director from 1 October 2009
° By invitation
§ Also attended the other meeting by invitation as he was the chief executive officer

Monarch Insurance Company Limited

Non-executive directors	Board	Audit and Risk
Number of meetings	4	4
A J Smart+	4	4
D M Nurek	4	4
R I Sanger	4	4
H Saven	4	4
R L Shaw	4	4
Executive director		
L A Davies	4	4°

+ Chairman. Retired as chief executive officer with effect 30 September 2009 and appointed non-executive director from 1 October 2009
° By invitation

Lewis Stores (Proprietary) Limited

Directors	Board
Number of meetings	3
A J Smart*	2/2
J Enslin	3
L A Davies	3
C Irwin	3
N Jansen	3
D Loudon	3
B van Aswegen	3

* Retired 30 September 2009

COMPLIANCE AND CODES OF CONDUCT

Regulatory and legislative compliance

New and proposed legislation impacting the group includes the following:

- Insurance Laws Amendment Act: This legislation mainly affects the group's insurer, Monarch Insurance Company Limited, and the relevant provisions of the Act were implemented during the year.
- Consumer Protection Act: An analysis of the legislation has been concluded and owing to the high ethical standards adopted by the group in its dealings with customers, limited refinements are required. The Act contains a number of transitional provisions which allows for businesses to effect implementation by October 2010.
- Companies Act 2008: Comment was submitted on the Companies Act Regulations and the group awaits the finalisation of the Companies Act.
- Financial Advisory and Intermediary Services Act: Implementation of the Act relating to the fit and proper requirements for staff is in progress.

The group had no instances of significant non-compliance, fines or prosecution in the period.

Behavioural code

The group conducts its business with the highest levels of professionalism and integrity. The Lewis Group pledge is a behavioural code which outlines the standards of honesty, integrity and mutual respect which employees are required to observe.

The corporate fraud policy sets out the responsibility of staff and management towards the detection and prevention of fraud.

A confidential hotline is available to all employees to report suspected incidents of fraud or dishonesty.

All employees who interact with suppliers or are involved with entities conducting business with the group are required to sign a declaration of conflict of interest. The declaration covers issues ranging from employees owning shares in a supplier to receiving gifts from suppliers. The declaration by employees has been noted in the group's risk register.

Personal share dealings

An insider trading policy restricts directors and specifically identified staff from dealing in the shares of Lewis Group during closed periods. The closed periods are effective from the end of the interim and annual reporting periods until the financial results are disclosed on SENS. Embargoes are also placed on share dealing when the group is trading under a cautionary statement.

Directors are required to obtain written clearance from the chairman of the board prior to dealing. The chairman is required to obtain written permission from the chairman of the Audit and Risk Committee.

It is also mandatory to notify the company secretary of any dealings in the company's shares. This information is then disclosed to the JSE Limited within 48 hours of the trade being effected and the details published on SENS.

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

Shareholder communications

The group is committed to regular and transparent communication with the investment community to provide a fair assessment of the financial position to all stakeholders. Management has an active contact programme with institutional investors and investment analysts, including interim and final results presentations in Cape Town and Johannesburg, post-results roadshows to investors, regular meetings with local and international fund managers and analysts, store visits as well as participation in broker conferences locally and offshore. An investor relations consultancy is retained by the group to advise on financial communications and investor relations.

AUDIT AND RISK COMMITTEE REPORT

The Audit and Risk Committee (the committee) has pleasure in submitting its report for the year ended 31 March 2010 in compliance with the requirements of the Companies Act.

INTRODUCTION

As a standing committee of the board, the committee operates within a documented charter and complies with all relevant legislation, regulation and governance codes. The committee's terms of reference are reviewed annually and approved by the board.

The committee acts as the Audit committee for all the subsidiaries in the Lewis Group except for Monarch Insurance Company Limited ("Monarch") which has its own Audit and Risk Committee.

OBJECTIVES

The objectives of the committee are:

- To assist the board to discharge its duties relating to the safeguarding of assets, the operation of adequate systems and controls, reviewing of financial information and the preparation of interim and annual financial statements in compliance with all applicable legal requirements and accounting standards.
- To facilitate and promote communication and liaison between the board of directors and the company's management in the respect of the matters referred to above.
- To provide a forum for discussing business risk and control issues for developing relevant recommendations for consideration by the board.
- To recommend the introduction of measures which the committee believes may enhance the credibility and objectivity of financial statements and reports concerning the affairs of the company.
- To assess the independence and objectivity of the external auditors.
- To advise on any matter referred to the committee by the board of directors.

Relationship of the Lewis Group Audit and Risk Committee to the Monarch Audit and Risk Committee

- Due to the integrated nature of the group's systems and processes, the Lewis Audit and Risk Committee bears the responsibility relating to:
  - internal and external audit management;
  - risk management and development; and
  - maintenance of an effective internal control system.
- In order for the Monarch Audit and Risk Committee to discharge its responsibilities under the Short Term Insurance Act, the Lewis Group Audit and Risk Committee refers any issues relating to these matters to the Monarch Audit and Risk Committee where such issues impact on Monarch.
- The duty and scope of the Monarch Audit and Risk Committee in monitoring the compliance with legal and regulatory requirements has been extended to include the Financial Advisory and Intermediary Services Act due to its interrelationship with the insurance activities of the group.
- The minutes of all Monarch Audit and Risk Committee meetings are submitted and reviewed by the Lewis Group Audit and Risk Committee.

MEMBERSHIP

At the year-end the committee comprised the following independent non-executive directors:

H Saven (chairman)
Z Bassa (appointed 1 October 2009)
D M Nurek
B J van der Ross

Biographical details of the committee members are provided on page 13. Fees paid to the committee members are outlined in the table of directors' remuneration on page 91 of the annual financial statements.

The chief executive officer, chief financial officer, Alan Smart and representatives of the internal and external auditors attend the meetings as invitees.

The Audit and Risk Committee also meets separately with the external and internal auditors when necessary, without members of executive management being present.

Messrs Saven, Nurek and Smart are also members of the Monarch Audit and Risk Committee.

COMMITTEE ACTIVITIES

The committee met four times during the year under review. Attendance of the members has been set out on page 42 of the Corporate Governance Report.

The committee attended to the following material matters:

- Financial statements
  - reviewed the interim results and year-end financial statements, including the public announcements of the company's financial results, and made recommendations to the board for its approval. In the course of its review, the committee :
    - took appropriate steps to ensure that the financial statements were prepared in accordance with International Financial Reporting Standards (IFRS);
    - considered the appropriateness of accounting policies and disclosures made; and

- completed the standard review of the going concern assumption.

- External auditors
  - reviewed the independence of PricewaterhouseCoopers Inc., the company's external auditors, and the nominee for the appointment of the designated auditor, before recommending to the board that their re-election be proposed to shareholders;
  - approved, in consultation with management, the audit fee and engagement terms for the external auditors for the 2010 financial year. The fees paid to the auditors are disclosed in note 21 to the annual financial statements;
  - determined the nature and extent of allowable non-audit services and approved the contract terms for the provision of non-audit services. It is the policy of the group that the auditor is restricted from rendering accounting, IT consulting services, company secretarial, internal audit and human resource services;
  - reviewed and approved the external audit plan, ensuring that material risk areas were included and that coverage of the significant business processes was acceptable; and
  - reviewed the external audit reports and management response, considered their effect on the financial statements and internal financial control.

- Internal audit
  - reviewed and approved the existing Internal Audit charter which ensures that the group's internal audit function is independent and has the necessary resources, standing and authority within the organisation to enable it to discharge its duties;
  - reviewed and approved the annual internal audit plan, ensuring that material risk areas were included and that the coverage of significant business processes was acceptable;
  - reviewed the quarterly internal audit reports, covering the effectiveness of internal control, material fraud incidents and material non-compliance with group policies and procedures. The committee is advised of all internal control developments and advised of any material losses, with none being reported during the year;
  - oversaw the co-operation between internal audit and external auditors; and
  - performed the annual evaluation of internal audit.

- Risk management
  - reviewed and approved the existing charter of the Risk Working Group;
  - reviewed the bi-annual reports prepared by the Risk Working Group and considered whether the current risk environment was appropriate for the business and whether management needed to mitigate or transfer any further portion of the business risks; and
  - evaluated the effectiveness of the risk management process.

- Financial control and compliance
  - reviewed and approved the group's existing treasury policy and reviewed the quarterly treasury reports prepared by management;
  - reviewed the quarterly legal and regulatory reports setting out the latest legislative and regulatory developments impacting the group;
  - reviewed the quarterly report on taxation;
  - reviewed information technology reports; and
  - considered and, where appropriate, made recommendations on internal financial control.

The committee was not required to deal with any complaints relating to accounting practices or internal audit, nor to the content or audit of the group's financial statements.

CHANGES TO COMMITTEE STRUCTURE

As part of the group's implementation of King III, the board has restructured the Audit and Risk Committee into two separate committees for audit and for risk with effect from the 2011 financial year.

EXPERTISE AND EXPERIENCE OF THE CHIEF FINANCIAL OFFICER

In terms of the JSE Listings Requirements, the Audit and Risk Committee satisfied itself as to the appropriateness of the expertise and experience of the group's chief financial officer.

APPROVAL OF THE REPORT

The committee confirms it has functioned in accordance with its terms of reference for the 2010 financial year and that its report to shareholders has been approved by the board.

Hilton Saven
Chairman

Audit and Risk Committee
19 May 2010

RISK MANAGEMENT

INTRODUCTION

Risk management forms an integral component of the group's governance framework and enables management to limit the impact of business, industry and general risks and protect the interests of all stakeholders.

The board retains accountability for risk management and responsibility is delegated to the Audit and Risk committee to ensure the group has adequate risk and internal controls.

There was no significant change in the overall risk profile of the group during the year. The directors confirm that risk mitigation and monitoring processes have proved to be robust and have been effective in limiting the impact of risks on the business in the challenging economic environment. The potential impact of some of the key risks was actively reduced during the period through focused management actions.

RISK MANAGEMENT PROCESS

The risk management principles outlined in King II are embedded into key processes to ensure the business remains sustainable and continues to create wealth for shareholders. The King III principles will be integrated into the risk management process in the new financial year. As part of the King III implementation process, the Audit and Risk Committee has been split with effect from the new financial year and separate committees constituted for the audit and risk functions.

Risk management is the responsibility of management, with internal audit acting as a facilitator in quantifying, measuring and reporting on the status of business risks to the Risk Working Group.

Senior executives and management undertake a control self-assessment exercise twice a year to formally evaluate risks facing the business. This process is facilitated by internal audit. The results are reported to the Risk Working Group to identify significant risks to the group and to recommend strategies to address these risks, which include mitigating or exploiting the risks.

Ownership of each risk is assigned by the Risk Working Group to specific executives or business units who are accountable for managing the risk.

A profile of the key risks facing the group is presented to the Audit and Risk Committee twice a year by the Risk Working Group.

CHANGES IN KEY RISKS

Changes in key risk ratings:

The following changes have been made to the key risks facing the group:

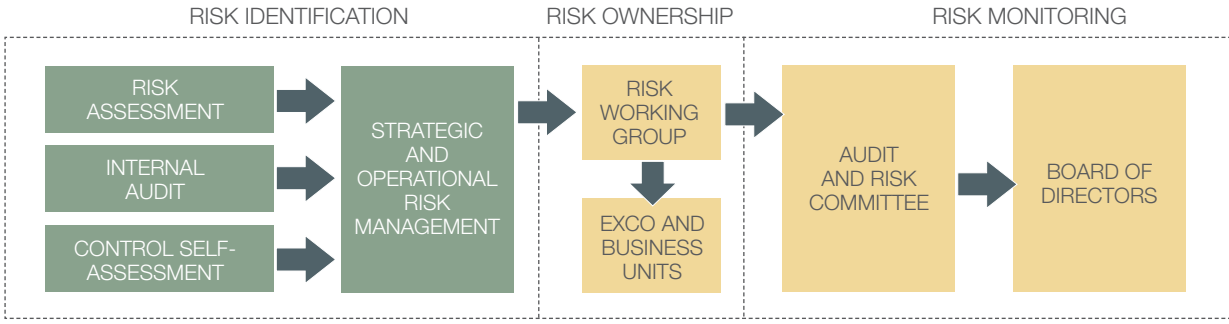
- *Information technology:* Risk rating changed from "high" to "medium"
  The severity of the risk has been mitigated by the planned upgrade to the current in-store system and the appointment of technical support staff capable of maintaining the new hardware/IT systems infrastructure.
- *Market/currency exposure:* Risk rating changed from "high" to "medium"
  Volatility in the currency, interest rate and equity markets has declined during the financial year and consequently the risk to the group has reduced. The risk is constantly monitored and the group's exposure to these markets is hedged where appropriate.
- *Supply base:* Risk rating changed from "medium" to "low"
  The level of risk has reduced due to management's ongoing focus on diversifying the supply base, sourcing exclusive merchandise ranges, both locally and internationally and monitoring the performance of logistics providers.
- *Reputation:* Risk rating changed from "medium" to "low"
  The level of the risk is considered to be lower following increased activities in stakeholder communication which are aimed at enhancing the Lewis brand.

New key risk identified:

- Socio-political: Increasing industrial action and labour unrest and its potential impact on the country's economy has heightened the socio-political risk facing the group.

INSURANCE

The group's external insurance and self-insurance programmes cover a wide range of risks. The insurance levels and insured events are reviewed annually to ensure adequate cover and amended after taking into account changed processes and emerging risks.



Risk	Significance	Definition	Management action
Credit management	●	The risk of not being able to maintain the optimal credit quality of the debtors book and manageable levels of bad debt.	• Centralised credit granting process • Technology-based credit scoring systems • Credit scorecards regularly reviewed to maintain credit risk levels • Store-based collections process provides early warning of payment difficulties • Continuous assessment of quality of credit granted and collection performance • Refer to Credit report on page 32
Market/ currency exposure	●	The impact of foreign exchange movements, interest rate increases and fluctuations in the equity market on the group's profits.	• Forward cover contracts to mitigate exchange rate fluctuations • Treasury policy • Monthly management meetings with Monarch's investment advisors and quarterly review by the Monarch board • Refer to note 28 on page 99 on financial risk management
Information technology	●	The risk of being dependent on the information technology platforms to support the operations of the company.	• Software development and hardware services outsourced • Service level agreements with service providers • Continual review of existing systems and service arrangements by IT Steering Committee • Disaster Recovery Plan tested regularly
People skills	●	The risk of not managing the group's human resources in such a way that it supports the objectives of the business.	• Performance management system for key executives and staff • Fast Track management programme • Training and development • Succession planning • Enhancing the effectiveness of the recruitment function • Salary surveys • Share incentive schemes • Developing effective relationships between staff and unions • Refer to Sustainability Report on page 48
Regulatory	●	The impact of regulations and legislation on the operations of the group.	• Monitoring legal publications • Utilisation of a legal compliance system • Membership of industry associations provides contact with regulators • Services of advisors are retained for key areas of the business
Crime	●	The risk of financial loss or loss of human life as a result of crime, employee dishonesty or fraud.	• Strong focus on internal control environment • Internal audit coverage • Reinforcement of the "Lewis behavioural code" • Toll-free confidential hotline to report fraud • Security guards at high risk branches • Drop safes and cash-in-transit procedures • Alarm systems and physical security • Prosecution of staff guilty of committing fraud
Socio-political	●	An adverse change in political and social conditions in South Africa may negatively impact the economic environment in which the group operates.	• Monitoring political and social developments • Reviewing impact of any macro economic policy changes • Realigning group strategy, where necessary
Supply base	●	The risk of not being able to satisfy customer demand as a result of the group's procurement strategies and supply chain management.	• Continuous identification of vendors to maintain exclusive, differentiated merchandise • Appropriate diversification of supply base • Balance between imported and local supply • Monitoring performance of logistics providers
Reputation	●	The substantial erosion in the reputation or value associated with the group's brand name which could have a material adverse impact on the business, financial condition and results of operations.	• Regular briefings and interaction with analysts and shareholders • Financial statement compliance review • Regular compliance reviews • Customer Service Excellence campaign • Staff training and awareness • Customer care line • Corporate social investment
Business Continuity Planning (BCP)	●	To ensure the ability to continue trading and provide customers with credible product offerings in the event of a disaster or business interruption.	• BCP reviewed on an annual basis • Regular BCP Steering Committee meetings • BCP tested every year

● High likelihood of occurrence with fundamental impact on business model
● Medium likelihood of occurrence with material impact on business model
● Low likelihood of occurrence with moderate impact on business model

LEWIS GROUP IS COMMITTED TO ADOPTING SUSTAINABLE BUSINESS PRACTICES TO ENSURE THE LONG-TERM PROSPERITY OF THE BUSINESS AND THE COMMUNITIES IT SERVES.

INTRODUCTION

Sustainability management is a key element of a company's corporate governance framework. The group supports the integrated sustainability reporting philosophy contained in the King III Report in the interests of enhancing disclosure beyond purely financial performance. The recommendations of the King III Report have been evaluated and the principles will be implemented as part of the ongoing development of the groups' sustainability strategy and reporting.

SOCIAL SUSTAINABILITY

Stakeholder engagement

Management believes the group is better positioned to achieve sustainable profit growth by considering the long-term social, economic and environmental impact of its operations. This requires the group to act in a socially responsible manner in its business activities and in all its relationships with stakeholders.

The primary stakeholders of the Lewis Group are:

- Shareholders and the broader investment community
- Customers across the three trading brands
- Employees at head office and stores throughout the group
- Suppliers of merchandise and services
- Communities in which the group operates
- Industry regulators who monitor compliance

The table details the rationale for the group's interaction with each of these stakeholder groups and outlines the means of engagement over the past year:

Peninsula School Feeding Association – St. Agnes Primary School, Woodstock

St. Agnes Primary School, Woodstock

Food tent – Walter Theka Primary School, Nyanga

Stakeholder	Rationale for engagement	Means of engagement
Shareholders	• Fair market rating of share • Access to capital • Two-way flow of information • Balanced analysis of company	Interim and annual results presentations; annual report; investor website; shareholder meetings; SENS announcements; press announcements; broker conferences; regular management meetings with local and international investors and analysts
Customers	• Loyalty and retention • Brand awareness • Two-way flow of information • Sustainable revenue stream	Customer contact in stores; local promotions; birthday contacts; advertising – press, radio, TV; point of sale; account statements; call centre; website; brochure distribution and Club magazine.
Employees	• Attract and retain talent • Employee motivation • Increase productivity • Engender loyalty	Intranet; quarterly newsletter; Lewis Live in-store broadcast network; Service Excellence Club; e-mail; management meetings; monthly in-store marketing meetings; regular review meetings; induction and training courses
Suppliers	• Timeous supply of goods and services • Consistent quality • Exclusive and preferential supply • Product development	Regular meetings at head offices locally; factory visits of local suppliers; overseas visits to supplier head offices and factories; attend new product launches and product development sessions
Communities	• Responsible corporate citizen • Sustainability of business • Emerging customer base	Community investment and upliftment through CSI programme and local support through stores. Involve staff in community engagement
Regulatory bodies	• Legislative compliance • Sound governance • Understanding of regulatory framework	Statutory reporting; regulatory submissions; liaison with regulatory bodies

EMPLOYEES

Lewis recognises that employees are the drivers of business performance. The group's human resources policies are aimed at enhancing performance through staff recognition schemes, equality of opportunity, training and development, a safe and healthy workplace, sound employee relations and an employee well-being programme.

A performance-driven culture aligns reward to the achievement of the group's strategic, financial and operational objectives.

Employment equity

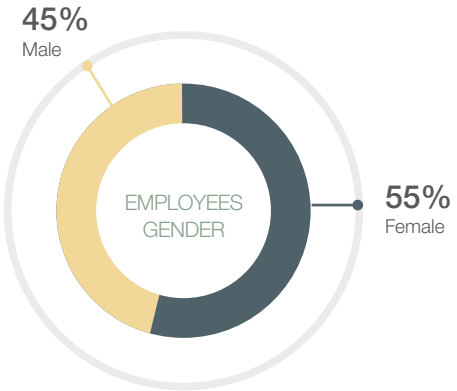
The group is committed to ensuring that its employee profile is representative of the customer base it serves and the communities in which Lewis trades. Black staff now account for 88% (2009: 85%) of the staff complement, with females comprising 55% (2009: 55%).

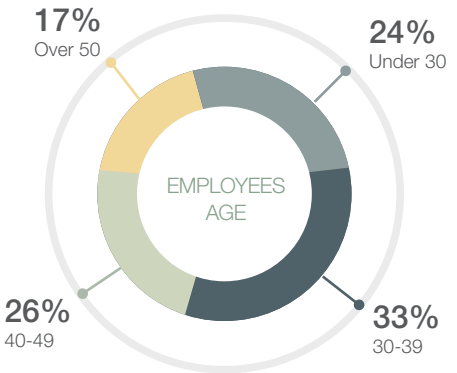
The employment equity plan for the three years from 2009 to 2012 focuses on increasing the representation of designated groups, mainly in the senior management, professionally qualified and skilled technical areas. Strategies have been developed to achieve internal employment equity targets, including the implementation of a comprehensive learning and development plan, in-service training of retail management students, granting bursaries, job profiling and performance assessments. Management monitors the group's performance against these targets to ensure employment equity is promoted across the business.

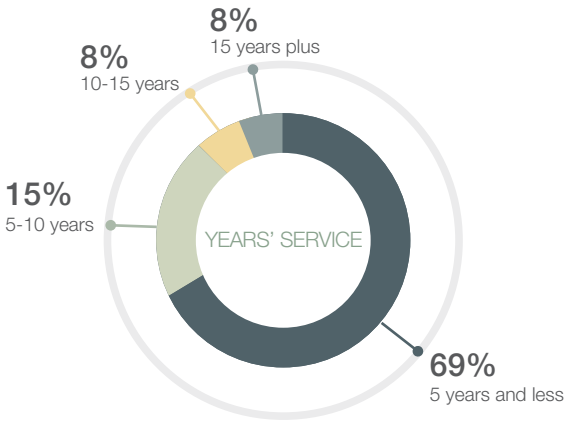
The employment equity details of the workforce in South Africa at 31 March 2010 was as follows:

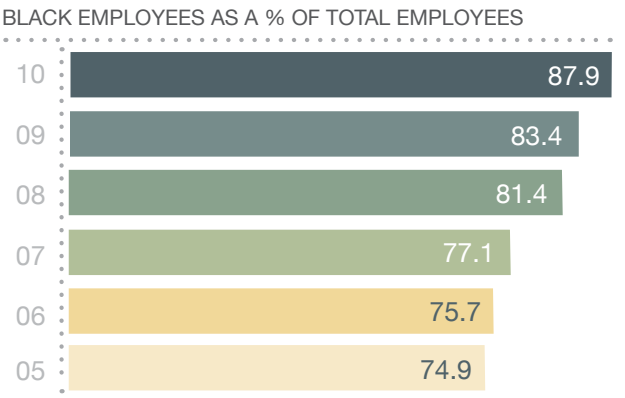
Employment equity

Occupational levels	Male			Female				Male	
	African	Coloured	Indian	African	Coloured	Indian	White	White	Total
Top management	0	1	0	0	0	0	0	5	6
Senior management	2	3	0	0	2	0	2	20	29
Professionally qualified	14	11	3	4	9	1	21	58	121
Skilled technical	121	59	10	127	98	16	216	102	749
Semi-skilled	1 664	532	18	1 729	734	52	340	61	5 130
Unskilled	21	12	0	5	5	0	0	0	43
Non-permanent	4	16	1	3	3	0	3	3	33
Total	**1 826**	**634**	**32**	**1 868**	**851**	**69**	**582**	**249**	**6 111**









Sibhangwane Primary School, Port Shepstone

Mshiywa Primary School, Harding

Skills development

An extensive range of training courses is offered to all employees to enhance their performance and skills. During the 2010 financial year, 2 627 staff attended training and development courses, an increase of 22% over the previous year.

Black staff accounted for 81% of the total employees trained.

Several of the courses are aimed at developing scarce skills relevant to the retail sector, focusing on sales, stock management, credit control and collections, management of stores and credit.

The group's training department is accredited as a training provider with the Wholesale and Retail Sector Education and Training Authority (W&R SETA) and offers a range of e-learning programmes in areas such as management development, sales training, induction training and other job-specific skills training. A further 3 544 staff, an increase of 38% over the previous period and of which 3 005 were black, were trained through these e-learning programmes.

Staff communications

Internal communication is key to staff motivation and to reinforcing the group's positioning as an employer of choice. As the majority of staff are located in stores across the country, a range of cost-efficient and effective communications media are used for information and training purposes:

- Lewis Communication System is an intranet-based information system for all announcements to staff and management.
- A quarterly newsletter focuses on staff performances (work and sport related); staff benefits; competitions; divisional performances and also provides a forum for feedback from staff.
- Lewis Live is a weekly broadcast on the in-house television system for training programmes and general communication to staff. This allows the group to expose all branches to standardised training and the latest product information.

Industrial relations

Lewis Group has a formal recognition agreement with the South African Commercial and Allied Workers' Union (SACCAWU).

Recognition agreements have also been concluded with unions in Botswana, Lesotho and Swaziland.

During the year settlements were reached in all countries, with no man days lost to industrial action.

Occupational health and safety

Lewis is committed to providing a healthy and safe environment for employees and customers. Safety management is incorporated into business practices to ensure accidents and incidents are minimised.

A health and safety policy aims to improve adherence to health and safety standards and ensure legislative and regulatory compliance. The health and safety committee will review risks and report to the executive committee on a regular basis. The internal audit department monitors compliance with the policy.

A risk assessment was conducted during the year to identify the major health and safety risks and programmes and procedures have been implemented to mitigate these risks.

HIV/AIDS management

Lewis has an HIV/AIDS awareness programme which is integrated into the regular company training programmes available to staff. The aim of the programme is to advise staff members of the effects of HIV/AIDS and available preventative methods. Brochures are regularly distributed to staff.

An incidental HIV/AIDS management programme has been made available to permanent staff and their immediate families. The programme is run by an external service provider which offers access to post-HIV exposure counseling through a care centre and covers initial medication, free consultations and assistance in locating a clinic for treatment. This service is linked to areas of incidental exposure only.

Participation by employees and their families is voluntary and counseling is confidential. The group meets the cost of this cover for employees.

CUSTOMERS

Lewis is committed to providing customers with quality products and excellent service. High levels of repeat sales are an indication of service satisfaction and customer loyalty, with the group achieving consistently high scores in client service performance evaluations.

A Service Excellence Club motivates and rewards staff for their outstanding customer service. Staff are nominated based on feedback from customers, reports from mystery shopping research or by senior management. Club members qualify for attractive incentives.

Customer profile

The group's customers are mainly middle class consumers in the LSM 4 to 7 categories. Customers are generally family oriented and from black communities, with 55% of customers being female. The group ensures that customers are serviced by staff from their own communities, with stores located close to where Lewis customers work, shop, live and commute.

Responsible credit granting

Credit is granted centrally to ensure responsible credit granting. Credit applications are processed through application and behavioral scorecards and an affordability assessment to ensure an affordable credit limit is allocated to the customer. Every customer is interviewed by the store manager where the cost of credit, terms and conditions of the credit sale and details of the insurance products selected are explained. This ensures that customers are well positioned to meet their monthly financial commitments.

Product responsibility

The group's suppliers undertake to repair or replace any defective merchandise within twelve months of the sale. If the merchandise is still defective within six months of the repairs, the supplier will be liable for replacement of the merchandise or refunding the customer in full. In addition, customers may purchase an extended two year maintenance contract from the group. This ensures an enhanced buying experience.

Tygerberg Meals-on-Wheels feeding scheme

Ntabende Primary School, Greyton

Mshiywe Primary School, Harding

Customer support

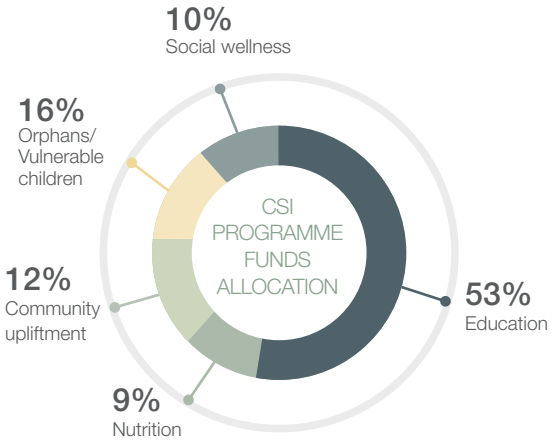
Stores manage customer queries. If customers are not satisfied they may contact the head office call centre via a toll free number. The call centre provides feedback and support to the customer and liases with senior operators, the merchandise division and suppliers on behalf of the customer to ensure resolution.

SOCIO-ECONOMIC DEVELOPMENT

Lewis Group acknowledges its responsibility to contribute to the communities in which it operates. Based on the belief that thriving business depends upon thriving communities, the corporate social investment (CSI) programme aims to assist communities where many people are affected by a lack of education, poverty and poor healthcare. Lewis seeks to be recognised by these communities as a dependable, caring and ethical corporate citizen.

Management is targeting to invest 1% of after-tax profits in community initiatives through both direct project investment and indirectly through charitable organisations operating in the fields of welfare, education and health. In the past year R6.1 million (2009: R2.6 million) was committed to social investment projects. This included additional funding allocated to building classrooms in rural KwaZulu-Natal and the funding of external bursaries and scholarships.

Lewis staff across the country is encouraged to identify projects in their own communities which are deserving of support and these are evaluated by the CSI committee.



The main projects supported by Lewis over the past year focused primarily on the support of children in their education, nutritional and general welfare requirements:

- *Project Build* provides educational and community facilities for disadvantaged communities in rural KwaZulu-Natal. The project brings together communities, funders, sponsors and local builders to develop these facilities while creating employment and providing classrooms for children. In partnership with Project Build, classrooms and facilities were built at four schools at a cost of R2.6 million. Over the last four years 21 classrooms, seven toilet blocks and ancillary buildings have been built.

- *Peninsula School Feeding Association* provides daily meals to children in the Western Cape. Lewis has adopted 10 schools and provides meals for some 1 200 children each school day. Lewis has funded equipment to Monte Christo, a feeding kitchen in Paarl, to enable the facility to provide daily meals for over 3 600 children.
- *Children of the Dawn* supports rural community initiatives which focus on caring for HIV/AIDS orphans and other vulnerable children. Lewis has increased its sponsorship from 83 to 150 children and the funding covers schooling, food, clothing and health care, including HIV/AIDS treatment.
- *iThemba Place of Hope* has established the iThemba Academy in Hillcrest, KwaZulu-Natal, to develop future leaders. Lewis has funded 10 bursaries for the children from the impoverished community of Embro to attend the iThemba Academy.

Some of the main organisations that were supported through the CSI programme were:

- *TSiBA Education* provides scholarships to students for tertiary education. Lewis funded scholarships for the top 10 students who completed the foundation phase in 2009.
- *Community Chest* received funding for its capacity enhancement programme which enables community-based NGOs to acquire business skills and management practices. This training has enabled many of the organisations to access corporate and state funding.
- *Red Cross Children's Hospital Trust* received a substantial donation from Lewis for skills development for specialists and surgeons in endoscopic surgery.

During the year a dedicated CSI website – www.lewisgroupcsi.co.za – was launched to showcase the group's community involvement.

ECONOMIC SUSTAINABILITY

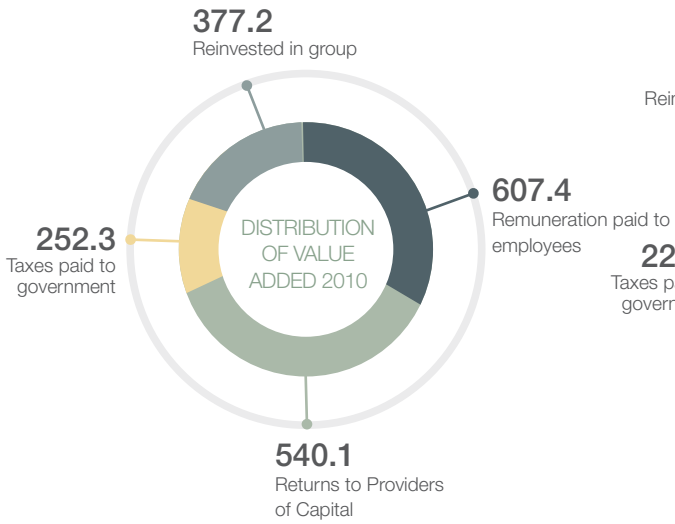
Economic value added

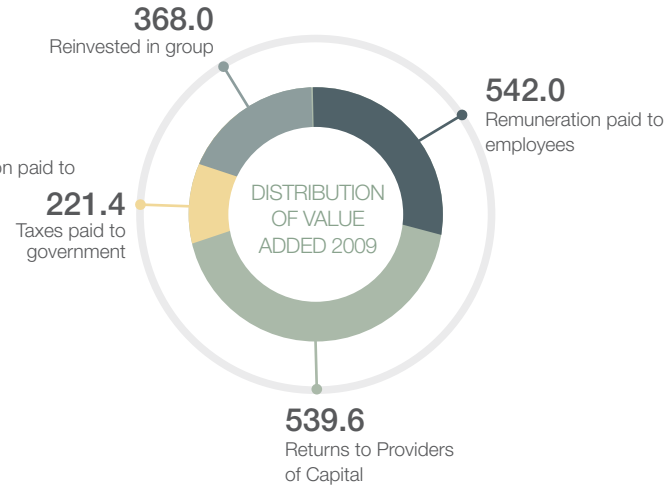
The value-added statement shows the wealth created by the activities of the group and how it was distributed among stakeholders, taking into account the amounts retained and reinvested in the group for the replacement of assets and development of operations.

Early childhood development centre – Kwa-Manzini Primary School

STATEMENT OF VALUE ADDED

	Group			
	2010		2009	
	Rm	%	Rm	%
Revenue	**4 110.6**		3 807.1	
Paid to suppliers for goods and services	**2 333.6**		2 136.1	
VALUE ADDED BY OPERATING ACTIVITIES	**1 777.0**		1 671.0	
DISTRIBUTED AS FOLLOWS:				
REMUNERATION TO EMPLOYEES	**607.4**	**34.2**	542.0	32.4
RETURNS TO PROVIDERS OF CAPITAL:	**540.1**	**30.4**	539.6	32.3
To provide lenders with a return on their capital utilised	**94.7**		108.5	
To provide lessors with a return for the use of their premises	**161.0**		146.8	
To provide shareholders with a return on their equity	**284.4**		284.3	
TAXES PAID TO GOVERNMENTS	**252.3**	**14.2**	221.4	13.3
Income taxation	**248.2**		217.7	
Municipal rates	**4.1**		3.7	
REINVESTED IN THE GROUP	**377.2**	**21.2**	368.0	22.0
Depreciation and amortisation	**46.3**		47.3	
Deferred taxation	**23.9**		43.8	
Net earnings retained	**307.0**		276.9	
TOTAL WEALTH DISTRIBUTED	**1 777.0**	**100.0**	1 671.0	100.0





Kwa-Manzini early childhood development centre

Tygerberg Meals-on-Wheels feeding scheme

Procurement and enterprise development

The group strives to provide customers with differentiated, exclusive and value-for-money merchandise. To meet the needs of customers, merchandise is sourced from local suppliers and through imports, mainly from the Far East. While imports account for 24% of merchandise, the group continues to work in partnership with local suppliers to design merchandise which is appealing to the customer base.

A substantial volume of merchandise is procured from small businesses which are mainly black owned. Financial assistance is provided to some of these businesses while payment terms of 30 days support the cash flows of these suppliers.

During the year approximately 58% of furniture was bought from BEE suppliers, 82% of vehicles were bought from a BEE dealership and some 30% of rental premises are owned or controlled by previously disadvantaged individuals.

ENVIRONMENTAL SUSTAINABILITY

Lewis Group is mindful of the environmental impact of its business activities and the consequences for climate change.

The group is currently developing an environmental policy that will cover compliance with environmental legislation, setting objectives, measuring and addressing direct and indirect environmental impacts and reporting on impacts to all stakeholders. The Board has responsibility for the environmental policy.

A preliminary review has confirmed that the group's direct environmental impact is low. The following priorities were identified:

- minimising electricity and water usage, with the immediate focus on reducing electricity consumption at stores;
- reducing waste by minimising paper usage;
- considering the impact of transport fleets and minimising emission rates; and
- reducing the consumption of materials, mainly packaging.

Suppliers are encouraged to manage the indirect environmental impact of their businesses.

An external service provider will be appointed early in the new financial year to undertake a baseline assessment of the group's carbon footprint. Following an evaluation of the results of this baseline assessment the environmental policy will be finalised and an environmental programme developed.

REMUNERATION PHILOSOPHY

Lewis Group strives to engender a performance-oriented remuneration philosophy which fairly rewards executives and staff for their contributions to assisting the group in achieving its strategic, financial and operational objectives.

Remuneration policies are structured to encourage sustainable, long-term performance through the following:

- Aligning reward systems with the interests of shareholders;
- Driving a performance culture;
- Attracting and retaining talented individuals in the furniture retail and financial services industries; and
- Managing employment costs while at the same time rewarding, retaining and motivating talented executives and staff.

REMUNERATION GOVERNANCE

The board has delegated responsibility for oversight of the group's remuneration practices to the Remuneration and Nomination Committee. This committee meets twice a year and consists of four independent non-executive directors. The chief executive officer attends meetings at the invitation of the committee, except when matters relating to his own remuneration are under discussion.

The role of the committee includes:

- developing a remuneration philosophy;
- ensuring senior executives are fairly rewarded;
- reviewing and approving compensation of executive directors and senior executives;
- recommending non-executive directors' fees for shareholder approval;
- approving the award of share incentives;
- succession planning;
- ensuring the board has the required mix of skills, experience and other qualities to effectively manage the group; and
- identifying and nominating candidates to fill board vacancies.

REMUNERATION BENCHMARKING

Remuneration needs to be market-based and competitive owing to the portability of skills. Market information is sourced from a range of industry and executive remuneration surveys to benchmark executive remuneration in comparable positions in peer companies.

Market surveys ensure staff are competitively rewarded in line with their performance and contribution. Most job categories are benchmarked against the furniture retail sector as the knowledge and skills required are industry-specific. Specialists are benchmarked against market trends.

Remuneration packages are determined by considering market trends, the importance of a position relative to the group's business, the required skills set, job-specific expertise, performance and contribution of individuals.

EXECUTIVE REMUNERATION

Executive remuneration packages include a guaranteed annual salary, annual performance bonus, long-term share-based incentives, motor vehicle allowance, healthcare and retirement benefits. All executive remuneration packages are approved by the Remuneration and Nomination Committee and ultimately the board.

Executives participate in a bonus scheme which is linked to their cash salary. Bonus payments are based on group performance relative to board-approved targets and specific performance measures directly under the executive's control.

Bonuses are only paid if the group achieves a minimum of 90% of its targeted performance. Any achievement between 90% and 100% of the target will result in a proportionate accrual of the bonus.

The maximum bonus payable to executive directors is 100% of salary and individual targets and bonus criteria for each executive are approved by the Remuneration and Nomination Committee.

Annual bonuses are payable in June each year following the approval of the group's financial results for the preceding financial year.

Long-term executive remuneration is addressed through share-based incentives to encourage sustainable shareholder wealth creation, and this is detailed further in the report.

The remuneration of the group's executive directors is set out in note 18.4 on pages 91 to 93 of the annual financial statements.

STAFF

The remuneration package for staff generally comprises a salary, performance-linked incentives or a guaranteed annual bonus, retirement and healthcare funding and store discounts.

Salaries are reviewed annually and the level of increase is based on group and individual performance according to pre-determined criteria. Increases are implemented on the anniversary of the employment contract.

A collective wage increase is negotiated with SACCAWU for all employees forming part of the South African-based collective bargaining unit. In October 2009 a wage settlement of R390 across the board was reached.

An annual bonus is paid in mid-December to all qualifying permanent employees. The bonus is calculated on a sliding scale from the first year of employment until it is equivalent to a 13th cheque after five years.

The group's decentralised business model requires stores to be accountable for all aspects of the customer relationship, including sales and credit collection. This structure empowers store managers to make decisions which influence the performance of their stores. Managers are remunerated according to this philosophy, earning a basic salary and incentives based on sales, credit collections, the quality of the debtors' book and profitability. Sales staff within the stores are largely commission-based and are incentivised to achieve performance targets. Credit collection staff within stores are rewarded for achieving collection targets.

Divisional, regional and branch managers qualify for incentive bonuses based on the performance of their particular business unit. Sales, collections and the overall condition of the debtors' book are considered in determining these bonuses.

SHARE INCENTIVE SCHEMES

Share incentive schemes are aimed at achieving the following:

- incentivising executives to contribute to the long-term growth and sustainability of the group; and
- attracting and retaining talented staff.

The group's schemes are equity-settled and the total number of shares and options under the schemes may not exceed 10% of the group's issued share capital. Awards will only be paid if staff are in the employ of the group at the time of vesting, other than in the event of death, ill-health, retirement or retrenchment.

The group has four approved schemes, with two that are currently in operation. Participation in the schemes is at the discretion of the Remuneration and Nomination Committee.

Lewis Executive Performance Scheme: Awards under this scheme offer executives the right to acquire shares for no consideration, subject to the achievement of board-approved annual performance objectives. Awards vest after three years. Targets are set for each of the three years and a proportionate number of shares are allocated for each year. No performance shares will accrue in a particular year if the group achieves less than 90% of its targeted performance in that year. Any achievement between 90% and 100% of target will result in a proportionate accrual of shares.

In September 2009 a five-year performance award was made to executives and key staff to encourage retention. These shares will vest in equal amounts after three, four and five years.

Lewis Co-Investment Scheme: This scheme allows executives to invest all or part of their net annual bonus

in the group's shares. At the date of the award matching shares equal to the pre-tax bonus amount are granted for no consideration. These invested shares are held by the share trust for three years. The matching shares only vest if the executive is in the employ of the group at the time of vesting at the end of the three-year period, and has not elected early withdrawal from the scheme.

Since the implementation of this scheme in June 2006, more than 75% of the bonus pool available to executives has been invested in the Co-investment scheme every year.

The following are the outstanding share awards:

Lewis Executive Performance Scheme	Vesting date	Outstanding shares
June 2007	June 2010	135 595
June 2008	June 2011	208 778
September 2008	September 2011	23 791
June 2009	June 2012	222 952
September 2009	September 2012, 2013 and 2014	650 000
Lewis Co-Investment Scheme	**Vesting date**	**Matching share option**
June 2007	June 2010	39 123
June 2008	June 2011	50 214
June 2009	June 2012	49 582
Total outstanding shares		**1 380 035**
Shares held by Lewis Employee Incentive Scheme Trust		810 706

EMPLOYEE BENEFITS

Membership of a retirement fund is compulsory for all permanent staff. Staff may join either the Lewis Stores Provident Fund, the SACCAWU Provident Fund in the case of union members or the Lewis Stores Namibian Provident Fund for employees in Namibia. These are defined contribution funds.

The group also has two defined benefit funds, namely the Lewis Stores Retirement Fund for executive management and the Lewis Group Pension Fund which was closed to new members on 1 July 1997 and consequently the membership of this fund is declining every year.

Total membership of these retirement plans at year-end was 4 519 (2009: 4 143).

Membership of the Discovery Health Group Scheme is compulsory for staff earnings more than R8 200 per month and the group contributes 47% of the total medical aid contribution. Staff earning less than R8 200 may participate in a voluntary medical aid scheme administered by Discovery and also qualify for the 47% subsidy. The group provides a medical aid subsidy to retired staff who were employed prior to 1 August 1997.

Other staff benefits includes home loan assistance, educational bursaries, subsidised canteen facilities at head office, discounts on merchandise at group stores and low-cost funeral and personal accident insurance.

NON-EXECUTIVE DIRECTORS

Non-executive directors receive fixed fees for their services to the board and board committees. Fees are based on an assessment of the non-executive director's time commitment, service, expertise, and increasing governance obligations. Fees are paid quarterly in arrears. In line with best governance and remuneration practice, non-executive directors do not participate in the group's incentive schemes.

The remuneration of non-executive directors is reviewed annually by the Remuneration and Nomination Committee and recommended to shareholders for approval at the annual general meeting.

Fees paid to the non-executive directors for the 2010 reporting period are outlined in note 18.4 on page 91 of the annual financial statements. The proposed fees for the 2011 financial year are included in the Notice of annual general meeting on page 118.

FOCUS AREAS IN THE YEAR AHEAD

The group will continue to build a talent pool to ensure business continuity and to retain key individuals at all levels of management. Remuneration practices are regularly evaluated to ensure compliance with all legal requirements and employment practice.

DIRECTORS' RESPONSIBILITY STATEMENT

Management has prepared the annual financial statements in accordance with International Financial Reporting Standards ("IFRS") and the Companies Act of South Africa.

The financial statements, which present 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 has approved the accounting policies applied and established that reasonable and sound judgements and estimates have been made by management when preparing the financial statements.

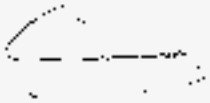
Adequate accounting records and an effective system of internal controls have been maintained to ensure the integrity of the underlying information.

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 has reviewed the business of the group together with budget and cash flows for the year to 31 March 2011, as well as the current financial position and has 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 examined the financial statements and their report appears on page 63.

The financial statements of the group and the company for the year ended 31 March 2010, which appear on pages 64 to 115 have been approved by the board of directors and signed on their behalf by:



D M Nurek
Chairman

J Enslin
Chief Executive Officer

Cape Town
19 May 2010

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.

M G McConnell
Company Secretary

Cape Town
19 May 2010

TO THE MEMBERS OF LEWIS GROUP LIMITED

We have audited the group annual financial statements and annual financial statements of Lewis Group Limited, which comprise the consolidated and separate balance sheets as at 31 March 2010, the consolidated and separate income statements, the consolidated and separate statement of comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report and Annexure A as set out on pages 64 to 115.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The group's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of Lewis Group Limited as at 31 March 2010, its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

PricewaterhouseCoopers Inc

PricewaterhouseCoopers Inc
Director: Z Abrahams
Registered Auditor

Cape Town
19 May 2010

NATURE OF BUSINESS

Lewis Group Limited is a holding company listed on the JSE Limited, 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 436 Lewis, 92 Best Home and Electric and 20 Lifestyle Living 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.

The nature of the business of the subsidiaries is set out on page 115.

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 66 to 115.

SEGMENTAL ANALYSIS

Segmental information is set out in the segmental report on page 70 of the annual financial statements.

POST-BALANCE SHEET EVENTS

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

SHARE CAPITAL

The company's authorised and issued share capital remained unchanged during the year.

TREASURY SHARES

The group has purchased 9 216 928 (9.2%) of its own shares on the open market through its subsidiary, Lewis Stores (Proprietary) Limited. Refer note 8.1 and 8.2 for more detail.

The Lewis Employee Incentive Scheme Trust effectively holds 810 706 shares, all of which will be utilised to cover share awards granted to executives. Details have been set out in notes 8 and 18.3 to the financial statements.

DIVIDENDS

The following dividends have been declared or proposed for the financial year ended 31 March 2010:

	Dividend per share	Date declared	Payable
Interim – declared	144 cents	9 Nov 2009	25 Jan 2010
Final – proposed	179 cents	19 May 2010	26 July 2010
For the year	323 cents		

Notice is hereby given that a final cash dividend of 179 cents per share in respect of the year ended 31 March 2010 has been declared payable to the holders of ordinary shares recorded in the books of the company on Friday, 23 July 2010. The last day to trade cum dividend will therefore be Friday, 16 July 2010 and Lewis shares will trade ex-dividend from Monday, 19 July 2010. Payment of the dividend will be made on Monday, 26 July 2010. Share certificates may not be dematerialised or rematerialised between Monday, 19 July 2010 and Friday, 23 July 2010, both days inclusive.

DIRECTORS

David Nurek, Alan Smart, Hilton Saven, Ben van der Ross, Professor Fatima Abrahams and Les Davies remained directors during the year. Zarina Bassa and Sizakele Marutlulle were appointed as non-executive directors on 1 October 2009.

Alan Smart retired as the chief executive officer on 30 September 2009 and Johan Enslin was appointed as chief executive officer and as a director on 1 October 2009. Alan Smart has agreed to continue to serve as a director in a non-executive capacity.

In terms of the articles of association of the company the following will retire and have offered themselves for re-election:

Z Bassa
L A Davies
J Enslin
S Marutlulle
B J van der Ross

COMPANY SECRETARY

M G McConnell remained as company secretary throughout the year. The address of the company secretary is that of the registered offices as stated on the inside cover.

DIRECTORS' INTERESTS

At 31 March 2010, the directors' beneficial direct and indirect interest in the company's issued shares were as follows:

	2010		2009	
	Direct	**Indirect**	Direct	Indirect
D M Nurek	**–**	**10 000**	–	10 000
H Saven	**–**	**2 940**	–	2 940
A J Smart	**319 070**	**–**	260 555	40 259
J Enslin	**–**	**27 388**	n/a	n/a
L A Davies	**50 000**	**25 908**	50 000	25 337
	369 070	**66 236**	310 555	78 536

n/a = not applicable since appointed as a director on 1 October 2009

The following share awards have been made to directors:

J Enslin	252 423
A J Smart	34 718
L A Davies	210 068

Full details of the terms and conditions in relation to these share awards are set out in note 18.4 to the financial statements.

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 Limited Listings Requirements took place between the company and its subsidiaries and the directors or their associates, other than remuneration for services rendered to the company as set out in note 18.4 to the financial statements.

SUBSIDIARY COMPANIES

Details of the company's subsidiaries are set out on page 115.

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

	2010 Rm	2009 Rm
Profit	**597.6**	571.0
Losses	**–**	–

BORROWING POWERS

Borrowings were R961.4 million at 31 March 2010 (2009: R737.0 million). 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.

INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2010

		GROUP	
	Notes	**2010 Rm**	2009 Restated Rm
REVENUE		**4 110.6**	3 807.1
Merchandise sales		**2 045.5**	1 919.9
Finance charges earned		**907.1**	826.6
Insurance premiums earned	16	**616.0**	581.4
Ancillary services		**542.0**	479.2
COST OF MERCHANDISE SALES	17	**(1 330.6)**	(1 318.3)
OPERATING COSTS		**(1 872.8)**	(1 656.5)
Employment costs	18	**(607.4)**	(542.0)
Administration and IT		**(194.7)**	(176.0)
Debtor costs	19	**(434.2)**	(338.8)
Marketing		**(134.3)**	(124.0)
Occupancy costs		**(165.1)**	(150.5)
Transport and travel		**(135.9)**	(138.8)
Depreciation		**(46.3)**	(47.3)
Other operating costs		**(154.9)**	(139.1)
OPERATING PROFIT	21	**907.2**	832.3
Investment income	22	**77.5**	76.9
PROFIT BEFORE FINANCE COSTS		**984.7**	909.2
NET FINANCE COSTS		**(121.2)**	(86.5)
Interest paid	23.1	**(94.7)**	(108.5)
Interest received	23.2	**6.0**	11.5
Forward exchange contracts	23.3	**(32.5)**	10.5
PROFIT BEFORE TAXATION		**863.5**	822.7
Taxation	24	**(272.1)**	(261.5)
NET PROFIT ATTRIBUTABLE TO ORDINARY SHAREHOLDERS		**591.4**	561.2
Earnings per share (cents)	25	**672.0**	636.2
Diluted earnings per share (cents)	25	**669.5**	633.2

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2010

	GROUP	
	2010 Rm	2009 Restated Rm
Net profit for the year	**591.4**	561.2
Fair value adjustments of available-for-sale investments	**87.1**	(40.0)
Fair value adjustments of available-for-sale investments	**99.4**	(47.6)
Tax effect	**(12.3)**	7.6
Disposal of available-for-sale investments recognised	**(21.3)**	2.4
Disposal of available-for-sale investments	**(23.6)**	2.6
Tax effect	**2.3**	(0.2)
Foreign currency translation reserve	**(7.4)**	4.4
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO EQUITY SHAREHOLDERS	**649.8**	528.0

BALANCE SHEET
AT 31 MARCH 2010

		GROUP		
	Notes	**2010 Rm**	2009 Restated Rm	2008 Restated Rm
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	4	**251.1**	225.1	197.5
Deferred taxation		**13.0**	–	–
Investments – insurance business	5	**716.0**	535.1	505.4
		980.1	760.2	702.9
CURRENT ASSETS				
Inventories	6	**210.0**	228.0	230.4
Trade and other receivables	7	**3 427.6**	2 893.4	2 571.8
Taxation		**–**	–	29.6
Investments – insurance business	5	**178.1**	199.1	159.5
Cash on hand and deposits		**62.2**	54.8	66.8
		3 877.9	3 375.3	3 058.1
TOTAL ASSETS		**4 858.0**	4 135.5	3 761.0
EQUITY AND LIABILITIES				
CAPITAL AND RESERVES				
Share capital and premium	8	**93.5**	97.8	149.1
Other reserves	9	**171.3**	107.4	128.4
Retained earnings	10	**3 008.9**	2 695.1	2 418.7
		3 273.7	2 900.3	2 696.2
NON-CURRENT LIABILITIES				
Long-term interest-bearing borrowings	11	**350.0**	100.0	–
Deferred taxation	12	**84.5**	37.7	1.3
Retirement benefits	13	**51.8**	53.9	57.7
		486.3	191.6	59.0
CURRENT LIABILITIES				
Trade and other payables	14	**450.0**	404.1	302.4
Taxation		**36.6**	2.5	–
Short-term interest-bearing borrowings	15	**611.4**	637.0	703.4
		1 098.0	1 043.6	1 005.8
TOTAL EQUITY AND LIABILITIES		**4 858.0**	4 135.5	3 761.0

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2010

		GROUP	
	Notes	**2010 Rm**	2009 Restated Rm
SHARE CAPITAL AND PREMIUM	8	**93.5**	97.8
Opening balance		**97.8**	149.1
Cost of own shares acquired:			
Treasury shares		**(4.3)**	(12.9)
Cancelled shares		**–**	(38.4)
OTHER RESERVES	9	**171.3**	107.4
Opening balance		**107.4**	128.4
Other comprehensive income:			
Fair value adjustments of available-for-sale investments		**87.1**	(40.0)
Disposal of available-for-sale investments recognised		**(21.3)**	2.4
Foreign currency translation reserve		**(7.4)**	4.4
Share-based payment		**10.9**	10.6
Transfer of share-based payment reserve to retained income on vesting		**(11.5)**	(0.2)
Transfer to contingency reserve		**6.1**	1.8
RETAINED EARNINGS	10	**3 008.9**	2 695.1
Opening balance		**2 695.1**	2 418.7
As previously reported			2 452.5
Prior year adjustment			(33.8)
Net profit attributable to ordinary shareholders		**591.4**	561.2
Profit on sale of own shares		**1.4**	1.1
Transfer of share-based payment reserve to retained income on vesting		**11.5**	0.2
Transfer to contingency reserve		**(6.1)**	(1.8)
Distribution to shareholders	26	**(284.4)**	(284.3)
BALANCE AT 31 MARCH 2010		**3 273.7**	2 900.3
Dividends paid per share (cents)		**323.0**	323.0
Dividends declared per share (cents)		**323.0**	323.0

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2010

		GROUP	
	Notes	**2010 Rm**	2009 Rm
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	27.1	**478.1**	669.7
Interest and dividends received		**59.9**	96.3
Interest paid		**(127.2)**	(108.5)
Taxation paid	27.2	**(214.2)**	(185.6)
CASH RETAINED FROM OPERATING ACTIVITIES		**196.6**	471.9
CASH UTILISED IN INVESTING ACTIVITIES			
Net additions to insurance business investments		**(60.5)**	(111.7)
Acquisition of property, plant and equipment		**(74.0)**	(77.0)
Proceeds on disposal of property, plant and equipment		**8.2**	5.7
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**(126.3)**	(183.0)
CASH EFFECTS OF FINANCING ACTIVITIES			
Purchase of own shares		**(4.3)**	(51.3)
Dividends paid	26	**(284.4)**	(284.3)
Proceeds on sale of own shares		**1.4**	1.1
Increase in long-term borrowings		**250.0**	100.0
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		**(37.3)**	(234.5)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**33.0**	54.4
Cash and cash equivalents at the beginning of the year		**(582.2)**	(636.6)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	27.3	**(549.2)**	(582.2)

SEGMENTAL REPORT
FOR THE YEAR ENDED 31 MARCH 2010

	GROUP			
	Lewis Rm	Best Home and Electric Rm	Lifestyle Living Rm	Total Rm
REPORTABLE SEGMENT				
2010				
SEGMENT INCOME STATEMENT				
Total revenue to external customers	**3 470.3**	**503.4**	**136.9**	**4 110.6**
Merchandise sales	**1 689.5**	**243.7**	**112.3**	**2 045.5**
Other revenue	**1 780.8**	**259.7**	**24.6**	**2 065.1**
Cost of merchandise sales	**(1 090.6)**	**(165.6)**	**(74.4)**	**(1 330.6)**
Operating costs	**(1 571.0)**	**(241.6)**	**(60.2)**	**(1 872.8)**
Segment operating profit	**808.7**	**96.2**	**2.3**	**907.2**
Segment operating margin	**23.3%**	**19.1%**	**1.7%**	**22.1%**
Segment assets [1]	**3 072.8**	**410.4**	**62.4**	**3 545.6**
Capital expenditure	**68.2**	**5.6**	**0.2**	**74.0**
Depreciation	**41.0**	**4.2**	**1.1**	**46.3**
2009				
SEGMENT INCOME STATEMENT				
Total revenue to external customers	3 204.5	454.3	148.3	3 807.1
Merchandise sales	1 568.5	226.0	125.4	1 919.9
Other revenue	1 636.0	228.3	22.9	1 887.2
Cost of merchandise sales	(1 077.9)	(160.6)	(79.8)	(1 318.3)
Operating costs	(1 389.6)	(202.5)	(64.4)	(1 656.5)
Segment operating profit	737.0	91.2	4.1	832.3
Segment operating margin	23.0%	20.1%	2.8%	21.9%
Segment assets [1]	2 671.9	341.5	69.7	3 083.1
Capital expenditure	72.3	3.8	0.9	77.0
Depreciation	42.0	4.0	1.3	47.3

[1] Segment assets include net instalment sale and loan receivables of R3 335.6 million (2009: R2 855.1 million) and inventory of R210.0 million (2009: R228.0 million).

GEOGRAPHICAL	South Africa Rm	BLNS (*) Rm	Total Rm
2010			
Revenue	**3 639.9**	**470.7**	**4 110.6**
Capital expenditure	**70.0**	**4.0**	**74.0**
2009			
Revenue	3 364.0	443.1	3 807.1
Capital expenditure	73.1	3.9	77.0

(*) Botswana, Lesotho, Namibia and Swaziland

1 SUMMARY OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale assets and financial assets and financial liabilities at fair value through profit and loss.

Preparation of financial statements in conformity with IFRS requires the use of certain accounting estimates. It also requires management to exercise judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Changes to accounting policies and disclosures arising from the adoption of new standards, amendments and interpretations to standards effective for the current year are disclosed in note 2.

1.2 Basis of consolidation

The consolidated annual financial statements incorporate the financial statements of the company and its subsidiaries. Subsidiaries are entities in which the group has an interest of more than one half of the voting rights or otherwise has the power to govern the financial or operating policies. The results of the subsidiaries are included from the effective date of acquisition to the effective date of disposal. The accounting policies and year-ends of all subsidiaries are consistent throughout the group. Intergroup transactions and balances are eliminated on consolidation.

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

Investments in subsidiaries are carried at cost less any impairment. Employee share trusts are consolidated. Shares in Lewis Group Limited held by subsidiaries and the share trust are classified as treasury shares.

1.3 Goodwill

Goodwill, being the excess of the purchase consideration over the attributable fair value of the identifiable assets and liabilities at the date of acquisition, is initially carried at cost. Goodwill is subject to an annual impairment test and written down to the recoverable amount, where impairment has occurred.

Any excess in the fair value of the identifiable assets and liabilities over the purchase consideration at the date of acquisition is recognised immediately in the income statement.

1.4 Foreign currency translations

1.4.1 Functional and presentation currency

The financial statements of the subsidiaries are measured in the currency of the primary economic environment of the subsidiary ("the functional currency"). The group and company financial statements are presented in South African Rand, the company's functional currency and the group and company's presentation currency.

1.4.2 Foreign currency transactions and balances

Transactions in foreign currency are converted at the exchange rate ruling at the transaction date. Monetary assets and liabilities are translated at the rate of exchange ruling at the balance sheet date. Exchange profits and losses arising from the translation of monetary assets and liabilities at balance sheet date or on subsequent settlement of these monetary items are recognised in the income statement in the period in which they arise.

1.4.3 Foreign entities

The assets and liabilities of foreign subsidiaries (excluding loans which are part of the net investment) are translated at the closing rate, while income, expenditure and cash flow items are translated using the average exchange rate. Differences arising on translation are reflected in a foreign currency translation reserve, a separate component of equity. On disposal of a foreign subsidiary, such translation differences are recognised in the income statement as a gain or loss on the sale.

1.5 Financial instruments

1.5.1 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held on call with banks and bank overdrafts. Bank overdrafts are included in short-term interest-bearing borrowings. Cash and cash equivalents are recognised initially at fair value and are subsequently remeasured at amortised cost using the effective interest rate.

1.5.2 Derivative instruments

Derivative instruments are utilised to hedge exposure to foreign currency and interest rate fluctuations. Derivatives are recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Although the derivative instruments entered into by the group provide an effective economic hedge, these derivative instruments have been classified as fair value through profit and loss and, consequently, changes in the fair value are recognised immediately in the income statement.

1.5.3 Financial assets

Investments are classified into three categories, based on the purpose for which the investment was acquired. The classification is determined on initial recognition. Derivative instruments are accounted for in terms of note 1.5.2.

The investments are classified as follows:

(i) Financial assets designated as fair value through profit and loss. A financial asset is classified as such where the asset is acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets where expected to be realised within twelve months of balance sheet date.

(ii) Available-for-sale assets are assets acquired with the intention of being held indefinitely or those assets that cannot be classified in any of the other categories of financial instruments. Available-for-sale financial assets are included in non-current assets, unless management intends to dispose of the investment within twelve months of the balance sheet date.

(iii) Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturities where management has the positive intention and ability to hold to maturity. Held-to-maturity investments are carried at amortised cost using the effective interest rate method. If the group were to sell these assets, the whole category of such assets would be reclassified as available-for-sale.

Purchases and sales of financial assets are recognised on the trade date, being the date that the group commits to the transaction. The financial assets are initially recognised at their fair value with transaction costs being expensed in the income statement in respect of assets classified as fair value through profit and loss and for other categories, added to their carrying value. Assets designated as fair value through profit and loss and as available-for-sale are subsequently carried at fair value and are valued by reference to quoted bid prices at the close of business on the balance sheet date or, where appropriate, by discounted cash flow with maximum use of market inputs.

Realised and unrealised gains and losses arising from a change in the fair value of financial assets classified as fair value through profit and loss are included in the income statement in the period in which they arise. Unrealised gains and losses arising from a change in fair value of available-for-sale investments are recognised in equity. When investments classified as available-for-sale are sold, the accumulated fair value adjustment is included in the income statement as gains and losses on investment.

At each balance sheet date, an assessment is made as to whether there is objective evidence to impair the financial assets. If any such evidence exists for available-for-sale financial assets, the cumulative loss less any impairment previously recognised on the asset is removed from equity and recognised in the income statement.

1.5.4 Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate, less a provision for impairment. The provision for impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Changes in the provision are recognised in the income statement.

1.5.5 Financial liabilities

(i) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(ii) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

1.5.6 Set-off

Financial assets and liabilities are off-set and the net amount reported in the balance sheet only when there is a legally enforceable right to off-set the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.6 Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation. The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are capitalised when it is probable that future economic benefits will arise and the cost can be measured reliably. All other expenditure is recognised through profit and loss.

Assets are depreciated to their residual value, on a straight-line basis, over their estimated useful lives. The estimated useful lives of the assets in years are:

Buildings	50 years
Leased equipment	3 years
Furniture and equipment	3 to 10 years
Vehicles	4 to 6 years

Land is not depreciated.

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

1.7 Leased assets

Leases of property, plant and equipment, where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lesser of the fair value of the leased assets or the present value of the minimum lease payments. Lease payments are allocated, using the effective interest rate method, between the lease finance cost, which is included in financing costs, and the capital repayment, which reduces the liability to the lessor. Capitalised leased assets are depreciated to their estimated residual value over the shorter of the lease period or their estimated useful lives.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

1.8 Inventories

Inventory, comprising merchandise held for resale, is valued at the lower of cost or net realisable value. Cost is determined using the weighted average basis, net of trade and settlement discounts. Net realisable value is the estimated selling price in the ordinary course of business, less variable selling expenses. Provision is made for slow moving, redundant and obsolete inventory.

1.9 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, but tested annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount may not be recoverable.

1.10 Current and deferred taxation

The tax expense comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. The group periodically evaluates positions taken in tax returns with respect to situations in which applicable legislation and regulations are subject to interpretation. Appropriate provisions are established on the basis of amounts expected to be paid to the tax authorities.

Deferred taxation, using the liability method, is provided on all temporary differences between the taxation base of an asset or liability and its carrying value. Deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred taxation is calculated at current or substantially enacted rates of taxation at balance sheet date. A deferred tax asset is raised to the extent that it is probable that sufficient taxable profit will arise in the foreseeable future against which the asset can be realised.

1.11 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.

1.12 Insurance business

1.12.1 Classification

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

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

1.12.2 Outstanding claims

Provision is made for the estimated final cost of all claims notified but not settled at the accounting date and claims arising from insurance contingencies that occurred before the close of the accounting period, but which had not been reported by that date. Claims and expenses are charged to income as incurred based on the estimated liability for compensation owed to insurance policyholders. The group's own assessors individually assess claims. Outstanding claims provisions are not discounted.

1.12.3 Contingency reserve

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

1.12.4 Provision for unearned premiums

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

1.12.5 Reinsurance

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

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

1.13 Segmental information

Operating segments are reported in a manner consistent with the internal reporting to the chief operating decision makers. The chief operating decision makers, who are responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer and the chief financial officer.

The group has identified its reportable segments based on the chains that it operates. These segments reflect how the group's businesses are managed and reported to the chief operating decision makers. All of the business segments operate in the furniture retail business. The following set out below is a summary of the operations in each of the reportable segments of the group:

(i) Lewis

Lewis sells a range of household furniture, electrical appliances and home electronics to customers in the LSM 4 to 7 categories.

(ii) Best Home and Electric

Best Home and Electric is a retailer of electrical appliances, sound and vision equipment and furniture, targeting the LSM 4 to 7 customer.

(iii) Lifestyle Living

Lifestyle Living is a retailer of stylish and contemporary furniture to customers in the LSM 8 to 10 categories.

Information regarding the performance of each segment is disclosed in the segment report. Performance is measured on the basis of the operating profit (which includes the insurance underwriting result), as management believes that this measure is useful in evaluating the results of the segments, both in relation to each other and in relation to their respective competition. With respect to assets and liabilities, the chief operating decision makers only monitor the trade receivables and inventory for each segment. The remaining assets and the liabilities are reviewed on a group basis.

The group's segments report their segment result and their segment assets (ie. trade receivables and inventory) in accordance with the group's accounting policies. There are no significant intersegmental transactions.

1.14 Current assets and liabilities

Current assets and liabilities have maturity terms of less than 12 months, except for instalment sale and loan receivables. Instalment sale and loan receivables, which are included in trade and other receivables, have maturity terms of between 6 to 36 months but are classified as current as they form part of the normal operating cycle.

1.15 Treasury shares

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

1.16 Employee benefits

1.16.1 Retirement plans

The group operates a number of defined benefit and defined contribution plans, the assets of which are held in separate trustee-administered funds. These plans are funded by payments from employees and group companies, taking into account the recommendations of independent, qualified actuaries. Pension costs are assessed annually by a qualified actuary, in terms of IAS 19, using the projected unit credit method.

The liability in respect of defined benefit pension plans is the present value of the defined benefit obligations at the balance sheet date minus the fair value of plan assets, together with adjustments for actuarial gains/losses and any past service cost. The present value of the defined benefit obligation is determined by the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability.

To the extent that actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans exceed the greater of 10% of the fund's obligation or plan assets at the end of the previous reporting period, the excess is charged or credited to income over the average remaining service lives of employees. Actuarial surpluses are not accounted for unless the group has a legal right to such surpluses.

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

1.16.2 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.

1.16.3 Share-based payments

The group operates a number of equity-settled share incentive schemes. The fair value of the employee services received in exchange for the grant of share awards and options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of share awards and options granted, excluding the impact of non-market service and performance vesting conditions. Non-market vesting conditions are included in the assumptions about the number of options that are expected to become exercisable. The total amount expensed is recognised over the vesting period, which is the period over which all vesting conditions are to be satisfied. At each balance sheet date, the group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity. Any accelerated vesting of the share awards and options requires immediate recognition of the remaining expense.

1.16.4 Leave pay accrual

Employee entitlements to annual leave are recognised as they accrue to employees. An accrual is made for the estimated liability for annual leave as a result of services provided by employees up to the balance sheet date.

1.17 Trading cycle

The group's trading cycle, consistent with prior financial periods, ends on the fifth day after the month being reported on, unless such day falls on a Sunday, in which case it ends on the fourth day.

1.18 Revenue recognition

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

(i) Merchandise sales

Revenue from the sale of merchandise is recognised on the date of delivery.

(ii) Finance charges earned

For contracts concluded in South Africa, finance charges are recognised by reference to the daily principle outstanding and the effective interest rate implicit in the agreement. For contracts concluded outside South Africa, finance charges are recognised on a sum-of-digits basis which approximates the effective yield basis.

(iii) Insurance premiums earned

Insurance premiums are recognised on a straight-line basis over the period of the contract, after an appropriate allowance is made for commission and reinsurance cost.

(iv) Ancillary services

Revenue from maintenance contracts is recognised over a 24-month period to ensure a reasonable profit margin. Initiation fees are recognised over the period of the contract on an effective yield basis. Revenue from the provision of other services is recognised when the services are rendered.

(v) Interest and dividends

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

2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

2.1 Change in accounting for deferred costs on initiation fees

The group previously deferred costs on the basis that the costs were directly related to the initiation fee earned. An amendment to IAS 18 (Revenue Recognition) replaced the term "direct costs" with "transaction costs" as defined in paragraph 9 of IAS 39. This later definition requires costs to be incremental ie costs that would not have been incurred, had the financial asset not been acquired.

In accordance with the amendment to IAS 18, the group's accounting policy for deferred costs on initiation fees has been changed. In terms of IAS 8 (Accounting Policies), the relevant comparative information has been restated and the effect on the financial statements is as follows:

	2010 Rm	2009 Rm
Decrease in profit before taxation	**8.8**	8.0
Decrease in taxation	**(2.5)**	(2.2)
Effect on net profit after taxation	**6.3**	5.8
Decrease in earnings per share (cents)	**7.2**	6.6
Decrease in diluted earnings per share (cents)	**7.1**	6.5
Decrease in opening retained earnings	**39.6**	33.8
Decrease in property, plant and equipment	**6.1**	4.6
Decrease in trade and other receivables	**57.6**	50.3
Decrease in deferred taxation	**17.8**	15.3

The effect on the 2008 balance sheet is as follows:	Rm
Decrease in opening retained earnings	–
Decrease in property, plant and equipment	3.1
Decrease in trade and other receivables	43.8
Decrease in deferred taxation	13.1

2.2 Adoption of Revised IAS 1 (Presentation of Financial Statements)

The presentation of the financial statements has been amended in line with the revised IAS 1 to include a statement of comprehensive income. In addition to net profit, the statement of comprehensive income includes fair value adjustments on insurance investments and movements in the foreign currency translation reserve. These were previously reflected in the statement of changes in equity.

2.3 Adoption of IFRS 8 (Operating Segments)

In terms of IFRS 8 which replaced IAS 14 (Segment Reporting), operating segments are components of the group about which separate financial information is available and evaluated regularly by the chief operating decision makers (identified as the chief executive officer and the chief financial officer) for the purpose of allocating resources and evaluating performance. Accordingly, the group now discloses segmental information for the three brands namely

Lewis, Best Home and Electric and Lifestyle Living. Previously, the segmental information was presented on the basis of retail, finance and risk segments.

In addition, an amendment to paragraph 23 of IFRS 8 has been adopted which permits disclosure of the assets regularly reported to the chief operating decision makers. Accordingly, segment assets reflect net trade receivables and inventory for each of the brands.

2.4 Adoption of Amendment to IFRS 7 (Disclosures)

The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of this amendment only results in additional disclosure.

The additional disclosures reflect that all quoted insurance investments are in the Level 1 category (ie based on quoted prices in active markets) and the valuation of money market balances and the forward exchange contracts, are in the Level 2 category (ie valued on inputs using observable market data). Refer note 30.

2.5 Other standards, interpretations, revisions and amendments effective for the current year

The following revisions and amendments to standards and interpretations have become effective for the current financial reporting year, but have had no material impact on the group's results, financial position or disclosure:

IFRS 2: Share-based payment (amendments effective I January 2009)

AC 504: The limit on a defined benefit asset, minimum funding requirements and their interaction in the South African pension fund environment

Annual improvements to IFRS issued May 2008 for amendments effective 1 January 2009

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the preparation of the financial statements, the following key estimates were made in determining the assets and liabilities of the group:

3.1 Impairment of receivables

A discounted cash flow model using the contractual interest rate on the expected future collections from customers is applied. The cash flows are calculated using the payment ratings of customers at the balance sheet date. Payment ratings assess the customers' actual payment pattern as compared to the contractual payments. Customer payment ratings are affected by the overall economic and credit environment such as the levels of employment and interest rates and, consequently, the impairment provision will be dependent on the changing financial circumstances of our customers.

3.2 Bad debts

Customer accounts are written off once it is assessed that the customer is no longer in a position to service the account.

3.3 Share-based payment

The share-based payment was valued in terms of an option pricing model. Details of the option pricing model and the assumptions used are detailed in note 18.2.

3.4 Normal and deferred taxation

The tax and deferred tax liabilities and assets are calculated using considered interpretations of the tax laws of the jurisdictions in which the group operates.

3.5 Retirement benefits

The underlying actuarial assumptions are set out in note 13.

3.6 Useful lives and residual values of fixed assets

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

4 PROPERTY, PLANT AND EQUIPMENT

	GROUP			
	Land and buildings Rm	Leased equipment Rm	Vehicles and fixtures Rm	Total Rm
AS AT 31 MARCH 2010				
Opening net carrying value	**110.9**	**–**	**114.2**	**225.1**
Additions	**7.2**	**–**	**66.8**	**74.0**
Disposals	**–**	**–**	**(1.7)**	**(1.7)**
Depreciation	**(1.1)**	**–**	**(45.2)**	**(46.3)**
Closing net carrying value	**117.0**	**–**	**134.1**	**251.1**
Cost	**123.7**	**–**	**402.6**	**526.3**
Accumulated depreciation	**(6.7)**	**–**	**(268.5)**	**(275.2)**
AS AT 31 MARCH 2009 (RESTATED)				
Opening net carrying value	84.2	–	113.3	197.5
Additions	27.7	–	49.3	77.0
Disposals	–	–	(2.1)	(2.1)
Depreciation	(1.0)	–	(46.3)	(47.3)
Closing net carrying value	110.9	–	114.2	225.1
Cost	116.5	14.9	361.6	493.0
Accumulated depreciation	(5.6)	(14.9)	(247.4)	(267.9)

A register of the group's land and buildings is available for inspection at the company's registered office.

	GROUP	
	2010 Rm	2009 Rm
5 INVESTMENTS – INSURANCE BUSINESS		
Listed investments		
Listed shares – available-for-sale	**308.1**	183.8
Fixed income securities – available-for-sale	**407.9**	351.3
Unlisted investments		
Money market – available-for-sale	**178.1**	199.1
	894.1	734.2
Analysed as follows		
Non-current	**716.0**	535.1
Current	**178.1**	199.1
	894.1	734.2
MOVEMENT FOR THE YEAR		
Beginning of the year	**734.2**	664.9
Net additions to investments	**84.1**	114.3
Movement in fair value transferred to equity	**75.8**	(45.0)
End of the year	**894.1**	734.2
A register of listed investments is available for inspection at the company's registered office. Regular purchases and sales of financial assets are accounted for on the trade date.		
6 INVENTORIES		
Cost of merchandise	**235.0**	251.8
Less: provision for obsolescence	**(25.0)**	(23.8)
	210.0	228.0

	GROUP	
	2010 Rm	2009 Rm
7 TRADE AND OTHER RECEIVABLES		
Instalment sale and loan receivables	**4 705.2**	4 007.2
Provision for unearned finance charges and unearned maintenance income	**(207.5)**	(181.1)
Provision for unearned initiation fees	**(88.5)**	(78.3)
Provision for unearned insurance premiums	**(438.2)**	(360.0)
Unearned insurance premiums	**(722.5)**	(598.1)
Less: reinsurer's share of unearned premiums	**284.3**	238.1
Net instalment sale and loan receivables	**3 971.0**	3 387.8
Provision for impairment	**(635.4)**	(532.7)
	3 335.6	2 855.1
Other receivables	**92.0**	38.3
	3 427.6	2 893.4

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

8 SHARE CAPITAL AND PREMIUM		
8.1 Share capital and premium		
Share capital	**1.0**	1.0
Share premium	**2 710.6**	2 710.6
Reverse acquisition reserve	**(2 123.1)**	(2 123.1)
	588.5	588.5
Treasury shares:		
Lewis Stores (Pty) Ltd	**(477.8)**	(477.8)
Lewis Employee Share Incentive Scheme Trust	**(17.2)**	(12.9)
Total share capital and premium	**93.5**	97.8

The average market price paid for the shares repurchased by the company and the treasury shares held by Lewis Stores (Proprietary) Limited was R50.45, with the lowest price being R32.99 and the highest R65.90.

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

	GROUP	
	2010 000's	2009 000's
8 SHARE CAPITAL AND PREMIUM (CONTINUED)		
8.2 Number of ordinary shares in issue		
Number of shares issued	**98 058**	98 058
Treasury shares held by:		
Lewis Stores (Proprietary) Limited	**(9 217)**	(9 217)
Lewis Employee Share Incentive Scheme Trust	**(811)**	(1 021)
Number of shares in issue	**88 030**	87 820
	Rm	Rm
9 OTHER RESERVES		
Comprising:		
Fair value reserve	**121.5**	55.7
Foreign currency translation reserve	**(18.3)**	(10.9)
Share-based payment reserve	**18.2**	18.8
Other	**0.8**	0.8
	122.2	64.4
Statutory insurance contingency reserve	**49.1**	43.0
	171.3	107.4
Detailed movements in the other reserves are disclosed in the statement of changes in equity.		
10 RETAINED EARNINGS		
Comprising:		
Company	**83.0**	83.6
Consolidated subsidiaries (restated)	**2 925.9**	2 611.5
	3 008.9	2 695.1

Distribution of all reserves by South African subsidiaries would give rise to STC of R251.6 million (2009: R231.6 million).

Distribution by certain foreign subsidiaries will give rise to withholding taxes of R33.4 million (2009: R30.5 million).

No provision for STC and withholding taxes is raised until dividends are declared.

		GROUP	
		2010 Rm	2009 Rm
11 INTEREST-BEARING BORROWINGS			
The group has the following long-term borrowings:			
Maturity date	Interest rate		
August 2011	3 month JIBAR plus 165 basis points	**100.0**	100.0
October 2011	3 month JIBAR plus 300 basis points	**50.0**	–
July 2012	3 month JIBAR plus 180 basis points	**200.0**	–
		350.0	100.0
12 DEFERRED TAXATION			
Balance at the beginning of the year (restated)		**37.7**	1.3
Movement for the year attributable to:			
Income statement credit		**23.8**	43.8
Deferred tax on fair value adjustment in equity		**10.0**	(7.4)
BALANCE AT THE END OF THE YEAR		**71.5**	37.7
This balance comprises:			
Capital allowances		**35.2**	20.9
Debtors allowances		**96.2**	59.7
Income and expense recognition		**(1.4)**	(1.7)
Other provisions		**(58.5)**	(41.2)
BALANCE AT THE END OF THE YEAR		**71.5**	37.7
Disclosed as:			
DEFERRED TAX ASSET		**(13.0)**	–
DEFERRED TAX LIABILITY		**84.5**	37.7
		71.5	37.7

	GROUP	
	2010 Rm	2009 Rm
13 RETIREMENT BENEFITS		
AMOUNTS RECOGNISED IN THE BALANCE SHEET		
Defined benefit retirement plan liability	**8.0**	11.2
Post-retirement healthcare benefits	**43.8**	42.7
	51.8	53.9

RETIREMENT PLANS

The group operates a number of retirement funds, all of which are held separate from the group's assets. There are three defined contribution funds, namely the Lewis Stores Provident Fund; the Lewis Stores Namibia Provident Fund for Namibian employees; and the SACCAWU Provident Fund for employees belonging to SACCAWU Trade Union. In addition, there are two defined benefit funds, namely the Lewis Stores Group Pension Fund which was closed to new members on 1 July 1997; and the Lewis Stores Retirement Fund for executive management. Both defined benefit plans are registered under the Pension Funds Act No. 24 of 1956.

The number of employees on these plans are as follows:	**No. of employees**	No. of employees
Lewis Group Pension Fund	**243**	273
Lewis Stores Retirement Pension Fund	**32**	32
SACCAWU Provident Fund	**767**	640
Lewis Stores Provident Fund	**3 342**	3 074
Lewis Stores Namibia Provident Fund	**135**	124

DEFINED BENEFIT PLANS

The defined benefit funds are final salary defined benefit plans. These schemes are valued by an independent actuary on an annual basis in terms of IAS 19 using the projected unit credit method. The latest valuation was carried out as at 1 January 2010.

	2010 Rm	2009 Rm
AMOUNTS RECOGNISED IN THE BALANCE SHEET		
Present value of obligations	**325.9**	331.0
Fair value of plan assets	**(325.0)**	(324.6)
	0.9	6.4
Unrecognised actuarial gains	**7.1**	4.8
Defined benefit retirement plan liability	**8.0**	11.2
AMOUNTS RECOGNISED IN THE INCOME STATEMENT		
Current service cost	**11.0**	11.4
Interest cost	**27.1**	28.8
Expected return on plan assets	**(29.8)**	(35.1)
Past service cost	**4.0**	–
Net actuarial losses recognised in the year	**1.4**	2.5
Total included in staff costs	**13.7**	7.6

13 RETIREMENT BENEFITS (CONTINUED)

	GROUP	
	2010 Rm	2009 Rm
MOVEMENT IN RETIREMENT BENEFIT LIABILITY		
Present value at the beginning of the year	**11.2**	16.9
Income statement charge	**13.7**	7.6
Contributions paid during the year	**(16.9)**	(13.3)
Present value at the end of the year	**8.0**	11.2
PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS		
Beginning of year	**331.0**	345.8
Current service cost	**11.0**	11.4
Interest cost	**27.1**	28.8
Employee contributions	**1.6**	1.7
Benefit payments	**(71.5)**	(36.6)
Actuarial loss/(gain)	**26.7**	(20.1)
End of year	**325.9**	331.0
FAIR VALUE OF DEFINED BENEFIT PLAN ASSETS		
Beginning of year	**324.6**	362.1
Employee contributions	**1.6**	1.7
Employer contributions	**16.7**	13.1
Expected return	**29.8**	35.1
Benefit payments	**(71.5)**	(36.6)
Actuarial gain/(loss)	**23.8**	(50.8)
End of year	**325.0**	324.6
PRINCIPAL ACTUARIAL ASSUMPTIONS USED WERE AS FOLLOWS:		
Discount rate	**9.00%**	9.00%
Expected return on plan assets	**10.00%**	10.00%
Inflation rate	**6.00%**	6.00%
Future salary increases	**7.00%**	7.00%
Future pension increases	**6.50%**	6.50%
Assumptions regarding future mortality experience are based on advice, published statistics and experience. The average life expectancy in years of a pensioner retiring at age 65 on valuation date is as follows:		
Male	**13.6 years**	13.7 years
Female	**15.6 years**	15.7 years
Actual return on plan assets	**18.3%**	(5.4%)

The employer's future contribution is set on an annual basis in consultation with the fund's actuary.

The expected return on plan assets (net of tax) is obtained by applying the expected long-term rate of return (net of tax) on plan assets to the fair value of plan assets.

13 RETIREMENT BENEFITS (CONTINUED)

	GROUP	
	2010 %	2009 %
PLAN ASSETS		
The major categories of plan assets as a percentage of the fair value of the total plan assets are as follows:		
Cash	**17.2**	22.9
Bonds	**17.5**	12.7
Equity	**46.6**	49.1
International equity	**15.0**	9.4
Property	**2.9**	3.7
Other	**0.8**	2.2
	100.0	100.0

	Obligation	Experience adjustments' gain/(loss)	
TRENDS	Rm	Plan assets Rm	Plan liabilities Rm
2010	325.9	23.8	(26.7)
2009	331.0	(50.8)	20.1
2008	345.8	24.4	(22.3)
2007	303.2	35.4	(22.8)
2006	269.9	24.6	(18.8)
2005	242.5	11.3	(24.0)

	2010 Rm	2009 Rm
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	**21.6**	18.8

POST-RETIREMENT HEALTHCARE BENEFITS

The group provides a subsidy of medical aid contributions to retired employees. Only those employees employed prior to 1 August 1997 qualify for this benefit. The liability was valued as at 31 March 2010 by a qualified actuary in accordance with the requirements of IAS 19. The group has a commitment to meet these unfunded benefits.

	GROUP	
	2010 Rm	2009 Rm
13 RETIREMENT BENEFITS (CONTINUED)		
AMOUNTS RECOGNISED IN THE INCOME STATEMENT		
Current service cost	**0.9**	0.9
Interest cost	**3.5**	3.3
Actuarial gain	**(1.3)**	(0.4)
Income statement charge	**3.1**	3.8
MOVEMENT IN POST-RETIREMENT HEALTHCARE LIABILITY		
Present value of liability at the beginning of the year	**42.7**	40.8
Charged to income statement	**3.1**	3.8
Employer benefit payments	**(2.0)**	(1.9)
Post-retirement healthcare benefits liability	**43.8**	42.7
PRESENT VALUE OF POST-RETIREMENT HEALTHCARE OBLIGATIONS		
Beginning of year	**42.7**	40.8
Current service cost	**0.9**	0.9
Interest cost	**3.5**	3.3
Benefit payments	**(2.0)**	(1.9)
Actuarial gain	**(1.3)**	(0.4)
End of year	**43.8**	42.7
PRINCIPAL ACTUARIAL ASSUMPTIONS USED WERE AS FOLLOWS:		
Healthcare inflation rate	**5.75%**	5.75%
CPI inflation	**5.25%**	5.75%
Discount rate	**9.00%**	9.00%
Average retirement age (years)	**63**	63
SENSITIVITY	Increase	Decrease
The effects of a 1% movement in the assumed medical aid inflation rate were as follows:		
Effect on aggregate of the current service and interest cost	0.7	(0.6)
Effect on defined benefit obligation	5.7	(4.7)
TRENDS	Obligation	Experience adjustments gain/(loss)
The trends of the present value of the obligation and experience adjustments are as follows:		
2010	43.8	1.1
2009	42.7	0.2
2008	40.8	0.2
2007	40.5	2.4
2006	41.2	4.9
2005	34.7	(2.7)

	GROUP	
	2010 Rm	2009 Rm
14 TRADE AND OTHER PAYABLES		
Trade payables	**64.1**	84.8
Accruals and other payables	**134.4**	142.9
Due to reinsurers	**121.1**	105.3
Insurance provisions	**130.4**	71.1
	450.0	404.1
15 SHORT-TERM INTEREST-BEARING BORROWINGS		
These borrowings are unsecured. The average closing interest rate on these borrowings was 9.00% (2009: 12.08%).	**611.4**	637.0
	611.4	637.0
16 INSURANCE PREMIUMS EARNED		
Gross insurance premiums	**732.6**	645.8
Reinsurance commission	**183.2**	197.3
Reinsurance premiums	**(299.8)**	(261.7)
	616.0	581.4
17 COST OF MERCHANDISE SALES		
Purchases	**1 312.6**	1 315.9
Movement in inventory	**18.0**	2.4
Cost of merchandise sales	**1 330.6**	1 318.3
Merchandise gross profit	**714.9**	601.6

	GROUP	
	2010 Rm	2009 Rm
18 DIRECTORS AND EMPLOYEES		
18.1 Employment costs		
Salaries, wages, commissions and bonuses	**550.4**	497.5
Retirement benefit costs	**38.4**	30.2
Share-based payments	**10.9**	10.6
Other employment costs	**7.7**	3.7
	607.4	542.0
18.2 Share-based payments		
As the fair value of the services received cannot be measured reliably, the services have been valued by reference to the fair value of shares and options granted. The fair value of such options and shares is measured at the grant date using the Black-Scholes model.		
In terms of IFRS 2, share-based payments are required to be expensed over the vesting period. Any accelerated vesting of the awards and options requires immediate recognition of the unrecognised portion.		
VALUE OF SERVICES PROVIDED:		
In respect of share awards and options granted subsequent to date of listing (refer note 18.3)	**10.9**	10.6
	R	R
Significant assumptions used were:		
Weighted average share price	**50.85**	47.52
Weighted average expected volatility	**63.1%**	48.7%
Weighted average expected dividend yield	**6.5%**	6.5%
Weighted average risk-free rate (bond yield curve at date of grant)	**8.6%**	9.7%
18.3 Share incentive schemes		
The employee share incentive schemes are in operation for employees, executives and directors holding salaried employment office. The aggregate number of shares which may be utilised for these schemes shall not exceed 10% of the issued share capital of the company.		
LEWIS ALL EMPLOYEE SHARE SCHEME	**No. of shares and options**	
In terms of the rules of the share scheme, participants are granted an award to receive shares for no consideration. Participants will only receive their share award if they remain in the employ of the group until vesting date. Share awards under this scheme usually vest between two and four years.		
Beginning of year	**6 080**	–
Granted	**–**	6 080
Forfeited	**–**	–
Vested and exercised by payment of consideration	**–**	–
End of year	**6 080**	6 080

18 DIRECTORS AND EMPLOYEES CONTINUED

18.3 Share incentive schemes continued

LEWIS EXECUTIVE PERFORMANCE SCHEME

In terms of the scheme, senior executives have been offered the right to acquire shares of the group for no consideration subject to the achievement of performance targets. The shares will vest after three years and is conditional upon the executive still being in the employ of the company other than in the event of death, ill health, retirement or retrenchment.

The performance targets are set by the Remuneration and Nomination Committee and are approved by the board. These targets will be set at the beginning of each of the three years and a proportionate number of the shares granted will be allocated to each year.

No performance shares will accrue if the group achieves less than 90% of target. Any achievement between 90% and 100% of target will result in a proportionate accrual of shares weighted towards 100% of target.

	GROUP	
	2010	2009
	No. of shares/options	
Beginning of year	**572 971**	294 312
Granted	**890 303**	287 747
Forfeited	**(82 201)**	(5 333)
Vested	**(139 957)**	(3 755)
End of year	**1 241 116**	572 971

LEWIS CO-INVESTMENT SCHEME

Senior executives are eligible for an annual bonus based on achievement of performance targets. These eligible executives can elect to invest all or part of their net bonus in the group's shares ("invested shares").

These shares are deferred for three years and matching shares equal to the before tax bonus are awarded for no consideration at the end of the period. The matching share award will lapse should the executive terminate his or her employment before the completion of the three-year period other than in the event of death, ill health, retirement or retrenchment.

The grant in respect of the matching share option is as follows:

Beginning of year	**217 535**	167 321
Granted	**49 582**	50 214
Forfeited	**–**	–
Vested	**(128 198)**	–
End of year	**138 919**	217 535

Invested shares paid for through the investment of executives' net bonuses amounted to 83 350 shares (2009: 130 518 shares). These shares are held by the Trust on the executives' behalf.

	GROUP	
	2010 R	2009 R
18 DIRECTORS AND EMPLOYEES CONTINUED		
18.4 Directors' emoluments		
NON-EXECUTIVE DIRECTORS – FEES AS DIRECTORS		
D M Nurek	**576 000**	533 000
H Saven	**407 000**	372 000
B van der Ross	**295 000**	273 000
F Abrahams	**295 000**	273 000
M S P Marutlulle [1]	**89 000**	–
Z Bassa [1]	**128 000**	–
A J Smart [1]	**109 000**	–
	1 899 000	1 451 000
[1] M S P Marutlulle and Z Bassa were appointed as directors on 1 October 2009 and A J Smart became a non-executive director on 1 October 2009.		
EXECUTIVE DIRECTOR – A J SMART (PAID BY SUBSIDIARY)		
Salary	**1 324 740**	2 440 000
Bonuses paid during the year	**1 098 000**	1 120 000
Contributions to pension scheme	**211 958**	390 400
Contribution to medical aid	**25 404**	46 488
Other material benefits	**99 200**	158 400
Gains on share awards	**5 178 480**	–
	7 937 782	4 155 288
EXECUTIVE DIRECTOR – J ENSLIN (PAID BY SUBSIDIARY) [2]		
Salary	**1 857 312**	n/a
Bonuses paid during the year	**675 000**	n/a
Contributions to pension scheme	**297 170**	n/a
Contribution to medical aid	**62 538**	n/a
Other material benefits	**53 394**	n/a
Gains on share awards	**1 360 656**	n/a
	4 306 070	n/a
[2] The above remuneration is for the whole year, although J Enslin was only appointed on 1 October 2009.		
EXECUTIVE DIRECTOR – L A DAVIES (PAID BY SUBSIDIARY)		
Salary	**1 677 864**	1 283 335
Bonuses paid during the year	**630 000**	550 000
Contributions to pension scheme	**268 458**	205 333
Contribution to medical aid	**75 486**	66 289
Other material benefits	**–**	172 320
Gains on share awards	**1 433 952**	–
	4 085 760	2 277 277

	GROUP	
	2010 R	2009 R
18 DIRECTORS AND EMPLOYEES CONTINUED		
18.4 Directors' emoluments continued		
GAINS ON SHARE AWARDS – EXECUTIVE DIRECTORS		
A J Smart		
Share awards vested	**102 759**	–
Offer date	**30 June 2006**	–
	19 June 2007	
Date vested	**30 June 2009**	–
	22 Sept 2009	
Exercise price	**–**	–
Exercise cost	**–**	–
Sale proceeds	**5 178 480**	–
Gain	**5 178 480**	–
J Enslin		
Share awards vested	**28 347**	n/a
Offer date	**30 June 2006**	n/a
Date vested	**30 June 2009**	n/a
Exercise price	**–**	n/a
Exercise cost	**–**	n/a
Sale proceeds	**1 360 656**	n/a
Gain	**1 360 656**	n/a
L A Davies		
Share awards vested	**29 874**	–
Offer date	**30 June 2006**	–
Date vested	**30 June 2009**	–
Exercise price	**–**	–
Exercise cost	**–**	–
Sale proceeds	**1 433 952**	–
Gain	**1 433 952**	–

	GROUP	
	2010	2009
	No. of shares/options	
18 DIRECTORS AND EMPLOYEES CONTINUED		
18.4 Directors' emoluments continued		
OUTSTANDING SHARE AWARDS AND OPTIONS – EXECUTIVE DIRECTORS		
Share awards under Lewis Executive Performance Scheme granted (refer note 18.3):		
Granted on 30 June 2006:		
A J Smart	**–**	44 753
L A Davies	**–**	22 287
Granted on 11 June 2007:		
A J Smart	**34 718**	34 718
J Enslin	**17 049**	n/a
L A Davies	**17 049**	17 049
Granted on 24 June 2008:		
J Enslin	**35 057**	n/a
L A Davies	**35 057**	35 057
Granted on 10 June 2009:		
J Enslin	**34 669**	
L A Davies	**34 782**	
Granted on 17 September 2009:		
J Enslin	**120 000**	
L A Davies	**80 000**	
Matching share options under Lewis Co-Investment Scheme (refer note 18.3):		
Granted on 30 June 2006:		
A J Smart	**–**	36 344
J Enslin	**–**	n/a
L A Davies	**–**	12 044
Granted on 19 June 2007:		
A J Smart	**–**	30 756
J Enslin	**15 379**	n/a
L A Davies	**13 840**	13 840
Granted on 24 June 2008:		
J Enslin	**16 345**	n/a
L A Davies	**16 345**	16 345
Granted on 10 June 2009:		
J Enslin	**13 924**	
L A Davies	**12 995**	
The Trust holds 53 296 shares (2009: 65 596 shares) on their behalf by virtue of the investment of their bonuses into the scheme.		
	Rm	Rm
18.5 Remuneration of key executives		
Salary	**8.8**	9.0
Bonus	**3.6**	3.5
Retirement and medical contributions	**1.8**	1.4
Other benefits	**0.5**	1.3
Gains on share awards vested	**9.5**	–
	24.2	15.2

Key executives compromise the directors of Lewis Stores (Proprietary) Limited, the main operating subsidiary.

	GROUP	
	2010 Rm	2009 Rm
19 DEBTOR COSTS		
Bad debts, repossession losses and bad debt recoveries	**331.5**	201.9
Movement in doubtful debts provision	**102.7**	136.9
	434.2	338.8
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.		
Payments on a cash flow basis:		
Within one year	**101.5**	96.3
Two to five years	**150.9**	181.5
Over five years	**–**	–
	252.4	277.8
Payments on a straight line basis:		
Within one year	**98.2**	95.0
Two to five years	**137.8**	166.5
Over five years	**–**	–
	236.0	261.5
21 OPERATING PROFIT IS STATED AFTER		
INITIATION AND SERVICE FEES ON ACCOUNTS RECEIVABLE	**268.2**	185.1
SURPLUS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT	**6.5**	3.6
DEPRECIATION		
Owned assets	**46.3**	47.3
Leased assets	**–**	–
	46.3	47.3
FEES PAYABLE:		
Investment management fee – insurance investments	**2.3**	2.0
Outsourcing of IT function	**31.9**	33.5
	34.2	35.5
OPERATING LEASES		
Operating lease payments on a cash flow basis	**129.2**	118.2
Lease adjustment	**0.2**	2.7
Operating leases on a straight-line basis	**129.4**	120.9
AUDITORS' REMUNERATION		
Audit fees – current year	**1.6**	1.4
– prior year underprovision	**0.1**	0.2
Other services	**0.5**	0.4
	2.2	2.0

	GROUP	
	2010 R	2009 R
22 INVESTMENT INCOME		
Interest – insurance business	**48.2**	55.3
Dividends from listed investments – insurance business	**5.7**	19.0
Realised profit on disposal of insurance investments	**23.6**	2.6
	77.5	76.9
23 NET FINANCE COSTS		
23.1 Interest paid		
Bank loans and overdrafts	**79.7**	105.4
Other	**15.0**	3.1
	94.7	108.5
23.2 Interest received		
Bank	**(3.6)**	(10.5)
Other	**(2.4)**	(1.0)
	(6.0)	(11.5)
23.3 Forward exchange contracts		
Realised	**30.4**	1.7
Unrealised	**2.1**	(12.2)
	32.5	(10.5)
23.4 Net finance costs	**121.2**	86.5

	GROUP	
	2010 R	2009 R
24 TAXATION		
24.1 Taxation charge		
South Africa	**243.5**	241.8
Foreign	**28.6**	19.7
Taxation per income statement	**272.1**	261.5
Comprising:		
Normal taxation		
Current year	**223.5**	194.8
Prior year	**(0.5)**	(5.5)
Deferred taxation		
Current year	**23.9**	37.9
Prior year	**–**	5.9
Rate change	**–**	–
Secondary tax on companies	**25.2**	28.4
Taxation per income statement	**272.1**	261.5
24.2 The rate of taxation on profit is reconciled as follows:		
Profit before taxation	**863.5**	822.7
Taxation calculated at a tax rate of 28% (2009: 28%)	**241.8**	230.4
Disallowed expenditure/(exempt income)	**1.6**	0.2
Secondary tax on companies	**25.2**	28.4
Prior years	**(0.5)**	0.4
Differing tax rates in foreign countries	**4.0**	2.1
Taxation per income statement	**272.1**	261.5
Effective taxation rate	**31.5%**	31.8%

	GROUP	
	2010 000's	2009 000's
25 EARNINGS PER SHARE		
25.1 Weighted average number of shares		
Weighted average shares for earnings and headline earnings per share	**88 002**	88 209
Dilution resulting from share awards outstanding	**328**	424
Weighted average shares for diluted earnings and headline earnings per share	**88 330**	88 633
Diluted earnings and headline earnings per share is calculated by adjusting the weighted average number of ordinary shares assuming that all share options will be exercised. The dilution is determined by the number of shares that could have been acquired at fair value (determined as the average annual market price of the shares) less the number of shares that would be issued on the exercise of all the share options.		
25.2 Headline earnings	**Rm**	Rm
Attributable earnings	**591.4**	561.2
Profit on disposal of property, plant and equipment	**(6.5)**	(3.6)
Profit on disposal of available-for-sale investments	**(23.6)**	(2.6)
Tax effect	**4.2**	1.2
Headline earnings	**565.5**	556.2
25.3 Earnings per share	**Cents**	Cents
Earnings per share	**672.0**	636.2
Diluted earnings per share	**669.5**	633.2
25.4 Headline earnings per share		
Headline earnings per share	**642.6**	630.5
Diluted headline earnings per share	**640.2**	627.5
26 DIVIDENDS PAID		
Dividend No. 8 declared on 19 May 2008 and paid on 28 July 2008		176.0
Dividend No. 9 declared on 10 November 2008 and paid on 26 January 2009		141.2
Dividend No. 10 declared on 18 May 2009 and paid on 27 July 2009	**175.5**	
Dividend No. 11 declared on 9 November 2009 and paid on 25 January 2010	**141.2**	
Dividends received on treasury shares:		
Lewis Stores (Proprietary) Limited	**(29.7)**	(29.7)
Lewis Employee Share Incentive Scheme Trust	**(2.6)**	(3.2)
	284.4	284.3

	GROUP	
	2010 Rm	2009 Rm
27 NOTES TO THE CASH FLOW STATEMENTS		
27.1 Cash generated from operations		
Operating profit	**907.2**	832.3
Adjusted for:		
Share-based payments	**10.9**	10.6
Depreciation	**46.3**	47.3
Surplus on disposal of property, plant and equipment	**(6.5)**	(3.6)
Movement in debtors' impairment provision	**102.7**	136.9
Movement in retirement benefits provision	**(2.1)**	(3.8)
Movement in other provisions	**71.5**	30.4
	1 130.0	1 050.1
Changes in working capital:	**(651.9)**	(380.4)
Decrease in inventories	**17.0**	4.1
Increase in trade and other receivables	**(644.3)**	(454.1)
(Decrease)/Increase in trade and other payables	**(24.6)**	69.6
	478.1	669.7
27.2 Taxation paid		
Amount (owing)/due at the beginning of the year	**(2.5)**	29.6
Amount charged to the income statement	**(272.1)**	(261.5)
Adjustment for deferred taxation	**23.8**	43.8
Amount owing at the end of the year	**36.6**	2.5
	(214.2)	(185.6)
27.3 Cash and cash equivalents		
Cash deposits and cash on hand	**62.2**	54.8
Short-term interest-bearing borrowings	**(611.4)**	(637.0)
Cash and cash equivalents	**(549.2)**	(582.2)

28 FINANCIAL RISK MANAGEMENT

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

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

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

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

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

28.1 Credit risk

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

(i) Accounts receivable

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

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

  The process differs as follows:

  - for new customers, application risk scorecards predict the risk with the emphasis for such an evaluation on information from credit bureaus and third-party information; and
  - for existing customers, behavioural scorecards have been developed to assess the risk through predictive behaviour with the emphasis on the customer's payment record with Lewis, bureau and other information being considered.

- Assessing client affordability: this process involves collecting information regarding the customer's income levels, expenses and current debt obligations. Lewis has its own priority expense model based on surveys conducted with customers which is done annually.
- Determining the credit limit for the customer: the customer's risk score determined by the scorecard together with the expense assessment and outstanding obligations are used to calculate a credit limit within the customer's affordability level.

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

28 FINANCIAL RISK MANAGEMENT CONTINUED

28.1 Credit risk continued

i) Accounts receivable continued

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

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

	GROUP	
	2010 Rm	2009 Rm
The total net receivable balance can be analysed as follows:		
Receivables satisfactory paid	**2 886.1**	2 437.8
Slow paying and non-performing receivables which have been impaired	**1 084.9**	950.0
	3 971.0	3 387.8

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

		No. of customers		Impairment provision %	
		2010	2009	**2010**	2009
SATISFACTORY PAID:					
Customers fully up to date including those who have paid 70% or more of amounts due over the contract period	No. %	**498 370** **72.7%**	497 296 72.0%	**0%**	0%
SLOW PAYERS:	.				
Customers fully up to date including those who have paid 65% to 70% of amounts due over the contract period	No. %	**58 476** **8.5%**	57 042 8.2%	**23%**	20%
NON-PERFORMING CUSTOMERS					
Customers who have paid 55% to 65% of amounts due over the period of the contract	No. %	**48 446** **7.1%**	50 300 7.3%	**43%**	42%
NON-PERFORMING CUSTOMERS					
Customers who have paid 55% or less of amounts due over the period of the contract	No. %	**80 417** **11.7%**	86 448 12.5%	**94%**	88%
Total		**685 709**	691 086	**16.0%**	15.7%

28 FINANCIAL RISK MANAGEMENT CONTINUED

28.1 Credit risk continued

(i) Accounts receivable continued

	GROUP	
	2010 Rm	2009 Rm
The ageing of satisfactory paid receivables past due but not impaired as a percentage of satisfactory paid receivables is as follows:		
1 instalment in arrear	**4.4%**	4.7%
2 instalments in arrear	**2.9%**	3.0%
3 instalments in arrear	**1.9%**	2.0%
4 instalments in arrear	**1.3%**	1.4%
4 or more instalments in arrear	**2.3%**	2.2%
	12.8%	13.3%

(ii) Fixed income securities and deposits

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

Deposits are placed with high-quality South African institutions. Included in the cash on hand and deposits are bank balances held in foreign currency amounting to R8.4 million (2009: R11.7 million).

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

28.2 Market risk

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

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

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

(i) Foreign exchange risk management

Foreign exchange risk is present in respect of imports of merchandise and the net investment in Botswana.

Imports of merchandise

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

28 FINANCIAL RISK MANAGEMENT CONTINUED

28.2 Market risk continued

During the year, 23.6% (2009: 23.7%) of the purchases were in foreign denominated currencies. Below is a summary of the amounts payable under forward contracts:

	Term	Rate	Foreign currency FCm	Rand equivalent Rm	Fair value (gain)/loss Rm
2010 US dollar	**Less than 3 months**	**Rates vary from R7.46 to R7.79**	**7.0**	**53.5**	**2.1**
2009 US dollar	Less than 9 months	Rates vary from R9.51 to R10.24	20.2	199.3	12.2

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

	-10%	-5%	+5%	+10%
2010				
Effect on (profit)/loss	**3.7**	**1.9**	**(1.9)**	**(3.7)**
(Increase)/Decrease in equity	**3.7**	**1.9**	**(1.9)**	**(3.7)**
2009				
Effect on (profit)/loss	6.6	13.1	(13.1)	(6.6)
(Increase)/Decrease in equity	6.6	13.1	(13.1)	(6.6)

Net investment in foreign entities

The currency exposure is limited to the net investment in Botswana of R76.3 million (2009: R77.0 million), which includes a long-term loan account. The currency exposure is managed by keeping the net investment at a minimum practical level by remitting cash to South Africa on a regular basis through loan repayments and dividends.

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

	-10%	-5%	+5%	+10%
2010				
(Increase)/Decrease in equity	**8.1**	**4.1**	**(4.1)**	**(8.1)**
2009				
(Increase)/Decrease in equity	9.4	4.7	(4.7)	(9.4)

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

28 FINANCIAL RISK MANAGEMENT CONTINUED

28.2 Market risk continued

ii) Interest rate risk

The principal objective of interest rate management is to:

– minimise the impact of interest rate volatility on profits in the short term; and

– ensure that the group is protected from volatile interest rate movements for the medium to long term.

Borrowings

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

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

	+50bp	-50bp
2010		
Effect on (profit)/loss	**3.8**	**(3.8)**
(Increase)/Decrease in equity	**3.8**	**(3.8)**
2009		
Effect on (profit)/loss	2.6	(2.6)
(Increase)/Decrease in equity	2.6	(2.6)

In order to hedge exposures in the interest rate profile of peak borrowings, the group may make use of interest derivatives and other hedging instruments in terms of limits specified in the group's treasury policy approved by the Audit and Risk Committee. During the current financial year, the group entered into an interest rate swap with the counterparty being a high-quality institution. The value of borrowings hedged and the fair value of these contracts as at 31 March 2010 are as follows:

	Notional amount Rm	Maturity date	Fair value (Rm)	
			2010	2009
Interest rate swap with the group being the fixed rate payer at 10.58% and the counterparty being the floating rate payer				
– commencing on 30 March 2009	100	30 Mar 2010	**–**	(2.9)
			–	(2.9)

28 FINANCIAL RISK MANAGEMENT CONTINUED

28.2 Market risk continued

(ii) Interest rate risk continued

Accounts receivable

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

Due to the business model of Lewis Group, the fair value of instalment and loan receivables would have no impact on management's decision-making and for this reason, fair value was not determined.

Interest rate profile

The interest rate profiles of financial instruments are as follows:

	Term of investment	Average closing effective interest rate %	Floating or fixed	Carrying value Rm
2010				
ASSETS				
Gross instalment sale and loan receivables	**Up to 3 years**	**27.8%**	**Fixed**	**4 705.2**
Fixed income securities	**Varies**	**9.4%**	**Fixed**	**407.9**
Money market investments	**Up to 6 months**	**7.9%**	**Floating**	**178.1**
LIABILITIES				
Long-term interest-bearing borrowings	**Varies (refer note 11)**	**9.4%**	**Floating**	**350.0**
Short-term interest-bearing borrowings	**Varies (refer note 15)**	**9.0%**	**Floating**	**611.4**
2009				
ASSETS				
Gross instalment sale and loan receivables	Up to 3 years	30.6%	Fixed	4 007.2
Fixed income securities	Varies	10.5%	Fixed	351.3
Money market investments	Up to 6 months	11.7%	Floating	199.1
LIABILITIES				
Long-term interest-bearing borrowings	Varies (refer note 11)	11.4%	Floating	100.0
Short-term interest-bearing borrowings	Varies (refer note 15)	12.1%	Floating	637.0

(iii) Price risk

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

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

The overall management objectives of the portfolio are:

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

28 FINANCIAL RISK MANAGEMENT CONTINUED

28.2 Market risk continued

(iii) Price risk continued

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

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

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

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

	GROUP	
	2010	2009
Modified duration of Monarch's fixed income portfolio	**5.7**	5.7
Modified duration of the JSE All Bond index	**6.0**	5.8

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

Portfolio sectoral analysis:		
Resources	**17.2%**	15.3%
Financials	**27.5%**	21.0%
Industrial	**55.3%**	63.7%
Beta of portfolio relative to JSE Index	**0.84**	0.85
Beta of portfolio relative to JSE Index, excluding resources	**0.95**	0.95

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

28.3 Liquidity risk

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

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

28 FINANCIAL RISK MANAGEMENT CONTINUED

28.3 Liquidity risk continued

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

	GROUP	
	2010 Rm	2009 Rm
Total banking facilities	**1 450.0**	1 250.0
Less: drawn portion of facility	**(961.4)**	(737.0)
Plus cash on hand	**62.2**	54.8
Available cash resources and facilities	**550.8**	567.8

The maturity profile of financial liabilities has been set out in note 30.

29 INSURANCE RISK

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

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

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

The principal risk that the group faces is that the actual claims exceed the amount of the insurance claims provisions. This could occur because the frequency or severity of claims are greater than estimated. Insurance events are random and the actual number of claims will vary from year to year from the estimated claims provision established using historical claims patterns.

The development of insurance claims provisions provides a measure of the group's ability to estimate the ultimate value of the claims. The group does not underwrite long-term risks and, consequently, the uncertainty about the amount and timing of claim payments is limited. Regular estimates of claims are performed in reviewing the adequacy of the insurance claims provisions. Claims development is reviewed by management on a regular basis.

The frequency and severity of claims can be affected due to unforeseen factors such as patterns of crime, AIDS and employment trends. The group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The geographical spread of the group ensures that the underwritten risks are well diversified. No significant concentrations of insurance risks exist.

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

	GROUP	
	2010 Rm	2009 Rm
29 INSURANCE RISK CONTINUED		
MOVEMENT IN PROVISIONS:		
(i) Unearned premium reserve		
Opening balance	**360.0**	290.5
Movement during year	**78.2**	69.5
Closing balance	**438.2**	360.0
Comprising:		
Unearned premiums	**722.5**	598.1
Less: reinsurers share of provision	**(284.3)**	(238.1)
Net balance	**438.2**	360.0
(ii) Insurance provisions		
Insurance provisions include outstanding claims, IBNR reserve and deferred reinsurance acquisition reserve.		
Opening balance	**71.1**	32.8
Movement during year	**59.3**	38.3
Closing balance	**130.4**	71.1

REGULATORY REQUIREMENTS

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

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

30 FINANCIAL INSTRUMENTS

(i) Categories

	Held-to-maturity	Amortised cost	Loans and receivables	Available-for-sale	Fair value through profit and loss	Total
ASSETS						
2010						
Investments – insurance business				**894.1**		**894.1**
Trade and other receivables			**3 427.6**			**3 427.6**
Cash on hand and on deposit		**62.2**				**62.2**
2009						
Investments – insurance business				734.2		734.2
Trade and other receivables			2 893.4			2 893.4
Cash on hand and on deposit		54.8				54.8
LIABILITIES						
2010						
Trade payables		**64.1**				**64.1**
Borrowings		**961.4**				**961.4**
2009						
Trade payables		84.8				84.8
Borrowings		737.0				737.0

(ii) Maturity profile of financial liabilities

The maturity profiles of financial liabilities at 31 March 2010 are as follows:

	0 – 12 months	2 – 5 years	>5 years	Total
LIABILITIES				
Borrowings	**(611.4)**	**(350.0)**		**(961.4)**
Trade payables	**(64.1)**			**(64.1)**
	(675.5)	**(350.0)**	**–**	**(1 025.5)**

(iii) Fair value estimation

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

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

30 FINANCIAL INSTRUMENTS CONTINUED

(iv) Fair value hierarchy

The following table presents the assets and liabilities that are recognised and subsequently measured at fair value as at 31 March 2010:

	Level 1	Level 2	Level 3	Total
Available-for-sale assets:				
Insurance investments:				
Equities	**308.1**			**308.1**
Fixed income securities	**407.9**			**407.9**
Money market		**178.1**		**178.1**
Forward exchange contracts		**(2.1)**		**(2.1)**
	716.0	**176.0**	**–**	**892.0**

A description of the categorisation of the valuation techniques used to value the assets and liabilities at fair value is set out below:

LEVEL 1:

Financial instruments valued with reference to quoted prices in active markets where the quoted price is readily available and the price represents actual and recurring market transactions on an arm's length basis. An active market is one which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

LEVEL 2:

Financial instruments valued using inputs other than quoted prices as described for Level 1, but which are observable for the asset or liability, either directly or indirectly, such as:
– quoted prices for similar assets/liabilities in an active market;
– quoted prices for identical or similar assets/liabilities in inactive markets;
– valuation model using observable inputs; and
– valuation model using inputs derived from/corroborated by observable market data.

LEVEL 3:

Financial instruments valued using inputs that are not based on observable market data. The group does not have any assets or liabilites that fall into this category.

31 CAPITAL RISK MANAGEMENT

The group's objectives when managing capital are to:
- safeguard the group's ability to continue as a going concern;
- provide returns for shareholders;
- provide benefits for other stakeholders; and
- maintain an optimal capital structure as approved by the board.

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

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

During the 2010 financial year, the strategy was to maintain the gearing below 30%, which in the current credit conditions is considered to be prudent. The gearing rates at 31 March 2010 and 31 March 2009 were as follows:

	GROUP	
	2010 Rm	2009 Rm
Interest-bearing borrowings	**961.4**	737.0
Less: cash and cash equivalents	**(62.2)**	(54.8)
Net debt	**899.2**	682.2
Shareholders' equity	**3 273.7**	2 900.3
GEARING RATIO	**27.5%**	23.5%
32 CONTINGENCIES		
Bank and other guarantees given by the group to third parties. The directors are of the opinion that no loss will be incurred on these guarantees.	**8.4**	7.5
33 CAPITAL COMMITMENTS		
Material capital commitments contracted for or authorised and contracted at the end of the year	**–**	10.0

34 NEW STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE

The following standards amendments resulting from the Improvement Project and interpretations are not yet effective and have not been adopted by the group:

IFRS 2: Share-based Payments	Clarification of the scope of the standard and amendments relating to cash-settled transactions.
IFRS 3: Business Combinations	A revised statement in respect of the accounting for business combinations.
IFRS 9: Financial Instruments	New standard that forms part of a three-phase project to replace IAS 39: Financial Instruments: Recognition and Measurement.
IAS 27: Consolidated and Separate Financial Statements	A revised statement to deal with changes arising from the revision of IFRS 3.
IFRIC 14: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction	The amendment relates to prepayments of a minimum funding requirement.
IFRIC 17: Distribution of Non-cash Assets to Owners	Interpretation relating to the distribution of assets as a dividend.
IFRIC18: Transfer of Assets from Customers	Interpretation setting out the accounting in circumstances where assets are transferred from customers.

Annual improvements to IFRS issued May 2008 for amendments effective 1 July 2009.

Annual improvements to IFRS issued April 2009 for amendments effective 1 July 2009 and 1 January 2010.

Management has not performed an assessment of the potential impact, if any, that the implementation of these standards and interpretations will have on the consolidated financial statements.

It should be noted that IFRS 9 introduces new requirements for classifying and measuring financial assets. This standard will be developed further in 2010 and new requirements for classifying and measuring financial liabilities, derecognition of financial instruments, impairment and hedge accounting will be implemented. No investigation of the impact has been made since the statement is still evolving. However, it is very likely that the complete standard will have a significant impact on the group's accounting.

COMPANY INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2010

		COMPANY	
	Notes	**2010 Rm**	2009 Rm
REVENUE	4	**322.3**	354.5
OPERATING COSTS	5	**(6.2)**	(4.0)
PROFIT BEFORE TAXATION		**316.1**	350.5
Taxation	6	**–**	–
NET PROFIT ATTRIBUTABLE TO ORDINARY SHAREHOLDERS		**316.1**	350.5

COMPANY BALANCE SHEET
AT 31 MARCH 2010

		COMPANY	
	Notes	**2010 Rm**	2009 Rm
ASSETS			
NON-CURRENT ASSETS			
Interest in subsidiaries	2	**2 796.3**	2 796.4
CURRENT ASSETS			
Deposits at bank		**–**	0.3
TOTAL ASSETS		**2 796.3**	2 796.7
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital and premium	3	**2 711.6**	2 711.6
Retained earnings		**83.0**	83.6
		2 794.6	2 795.2
CURRENT LIABILITIES			
Trade and other payables		**1.7**	1.5
TOTAL EQUITY AND LIABILITIES		**2 796.3**	2 796.7

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2010

	COMPANY		
	Share capital and premium Rm	Retained Earnings Rm	Total Rm
BALANCE AS AT 1 APRIL 2008	2 750.0	50.3	2 800.3
Net profit attributable to ordinary shareholders	–	350.5	350.5
Shares cancelled	(38.4)	–	(38.4)
Dividends paid	–	(317.2)	(317.2)
BALANCE AT 31 MARCH 2009	**2 711.6**	**83.6**	**2 795.2**
Net profit attributable to ordinary shareholders	**–**	**316.1**	**316.1**
Dividends paid	**–**	**(316.7)**	**(316.7)**
BALANCE AT 31 MARCH 2010	**2 711.6**	**83.0**	**2 794.6**

COMPANY CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2010

		COMPANY	
	Notes	**2010 Rm**	2009 Rm
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	7	**(6.0)**	(4.1)
Dividends and interest received		**322.3**	354.5
CASH RETAINED FROM OPERATING ACTIVITIES		**316.3**	350.4
CASH UTILISED IN INVESTING ACTIVITIES			
Loans to subsidiary companies		**0.1**	4.2
NET CASH INFLOW FROM INVESTING ACTIVITIES		**0.1**	4.2
CASH EFFECTS OF FINANCING ACTIVITIES			
Cost of own shares acquired		**–**	(38.4)
Dividends paid		**(316.7)**	(317.2)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		**(316.7)**	(355.6)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(0.3)**	(1.0)
Cash and cash equivalents at the beginning of the year		**0.3**	1.3
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**–**	0.3

	COMPANY	
	2010 Rm	2009 Rm
1 ACCOUNTING POLICIES		
The financial statements have been prepared on the historical cost basis and in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act. The accounting policies used in the preparation of these financial statements are set out on pages 71 to 77.		
2 INTEREST IN SUBSIDIARIES		
Shares at cost	**2 800.0**	2 800.0
Indebtedness	**(3.7)**	(3.6)
	2 796.3	2 796.4
3 SHARE CAPITAL AND PREMIUM		
AUTHORISED		
150 000 000 ordinary shares of 1 cent each	**1.5**	1.5
ISSUED		
98 057 959 (2009: 99 157 959) ordinary shares of 1 cent each	**1.0**	1.0
Share premium	**2 710.6**	2 710.6
Total share capital and premium	**2 711.6**	2 711.6
4 REVENUE		
Dividends received from subsidiary	**322.3**	354.4
Interest received	**–**	0.1
	322.3	354.5
5 OPERATING PROFIT	**R**	R
Stated after:		
Audit fees – current year	**50 000**	50 000
Other services	**–**	15 000
	50 000	65 000
6 TAXATION	**Rm**	Rm
Taxation	**–**	–
	–	–
THE RATE OF TAXATION ON PROFIT IS RECONCILED AS FOLLOWS:		
Profit before taxation	**316.2**	350.5
Taxation calculated at a tax rate of 28% (2009: 28%)	**88.5**	98.1
(Exempt income)/Disallowed expenditure	**(88.5)**	(98.1)
Taxation per income statement	**–**	–
7 CASH GENERATED FROM OPERATIONS		
Profit before taxation	**316.1**	350.5
Dividends and interest received	**(322.3)**	(354.5)
Increase/(Decrease) in trade and other payables	**0.2**	(0.1)
	(6.0)	(4.1)

INTEREST IN SUBSIDIARY COMPANIES
FOR THE YEAR ENDED 31 MARCH 2010

	Nature of business	**2010** Carrying value of subsidiaries Rm	**2010** % holding	2009 Carrying value of subsidiaries Rm	2009 % holding
DIRECTLY HELD					
Lewis Stores (Pty) Ltd	F	**2 800.0**	**100%**	2 800.0	100%
INDIRECTLY HELD					
Incorporated in South Africa					
Kingtimm (Pty) Ltd	L		**100%**		100%
Lifestyle Living (Pty) Ltd	F		**100%**		100%
Monarch Insurance Co. Ltd	I		**100%**		100%
Incorporated in Botswana					
Lewis Stores (Botswana) (Pty) Ltd	F		**100%**		100%
Lewis Management Services (Botswana) (Pty) Ltd	M		**100%**		100%
Incorporated in Swaziland					
Lewis Stores (Swaziland) (Pty) Ltd	F		**100%**		100%
Incorporated in Namibia					
Lewis Stores (Namibia) (Pty) Ltd	F		**100%**		100%
Lewis Management Services Namibia (Pty) Ltd	M		**100%**		100%
Incorporated in Lesotho					
Lewis Stores (Lesotho) (Pty) Ltd	F		**100%**		100%
COST OF SUBSIDIARIES		**2 800.0**		2 800.0	
AMOUNTS DUE BY SUBSIDIARIES					
Lewis Stores (Pty) Ltd		**(3.7)**		(3.6)	
INTEREST IN SUBSIDIARIES		**2 796.3**		2 796.4	

F Furniture dealer
I Insurance company
M Management services company
L Company holding property leases

	No. of shareholders Total	%	Number of shares Total	%
SHAREHOLDERS' SPREAD AS AT 31 MARCH 2010				
1 – 1 000 shares	933	47.43	472 214	0.48
1 001 – 10 000 shares	667	33.86	2 334 336	2.38
10 001 – 100 000 shares	253	12.86	8 845 217	9.02
100 001 – 1 000 000 shares	94	4.78	27 611 713	28.16
1 000 001 shares and over	21	1.07	58 794 479	59.96
Total	1 968	100.00	98 057 959	100.00
DISTRIBUTION OF SHAREHOLDERS AS AT 31 MARCH 2010				
Public	1 957	99.45	87 473 235	89.21
Pension funds			27 040 710	27.58
Unit trusts/Mutual funds			25 039 535	25.54
Managed funds			18 634 087	19.00
Insurance companies			10 604 772	10.81
Other			6 154 131	6.28
Non-public	11	0.55	10 584 724	10.79
Lewis Stores (Proprietary) Limited	1	0.05	9 216 928	9.40
Lewis Employee Incentive Scheme Trust	1	0.05	810 706	0.83
Directors:				
Lewis Group Limited	5	0.25	435 306	0.44
Lewis Stores (Proprietary) Limited	4	0.20	121 784	0.12
	1 968	100.00	98 057 959	100.00

MAJOR SHAREHOLDINGS AS AT 31 MARCH 2010

According to the company's register of disclosures of beneficial interests made by registered shareholders acting in a nominee capacity, and the disclosures made by fund managers in terms of section 140A of the Companies Act, the following entities owned in excess of 3% of the company's shares as at 31 March 2010:

	%
Beneficial shareholders	
Government Employee Pension Fund	12.67
Lewis Stores (Proprietary) Limited	9.40
Public Investment Commissioners	5.40
Metlife Main Account	3.74
TriAlpha Oceana Concentrated Opportunity Fund	3.20
By Fund Manager	
Public Investment Commissioners	12.35
Old Mutual Investment Group	5.75
AXA Financial SA	5.43
Sanlam Investment Managers	4.94
Stanlib Asset Managers	4.89
Metropolitan Asset Managers	4.41
TriAlpha Asset Management Limited	3.33
GEOGRAPHICAL ANALYSIS OF SHAREHOLDERS:	
Beneficial shareholders	
South Africa	73.03
North America	13.90
United Kingdom	2.55
Europe	4.77
Rest of World	5.75
	100.00
By Fund Manager	
South Africa	72.31
North America	13.79
United Kingdom	2.55
Europe	8.13
Rest of World	3.22
	100.00

SHAREHOLDERS' CALENDAR

Financial year-end	31 March 2010
Final profit announcement	19 May 2010
Final dividend declared	19 May 2010
Annual Report	30 June 2010
Last day to trade "cum" dividend	16 July 2010
Date trading commences "ex" dividend	19 July 2010
Record date	23 July 2010
Date of dividend payment	26 July 2010
Annual General Meeting	13 August 2010
Interim Profit Announcement	8 November 2010

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 sixth annual general meeting of shareholders ("AGM") of Lewis Group Limited for the year ended 31 March 2010 will be held at Lewis Group head office, 53A Victoria Road, Woodstock, Cape Town at 10:00 am on Friday, 13 August 2010. **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 2010 accompanying this notice be accepted and approved."

2. **Ordinary resolution number 2**

   Election of directors

   Zarina Bibi Mahomed Bassa, Leslie Alan Davies, Johan Enslin, Myra Sizakele Pinkie Marutlulle and Benedict James van der Ross retire in accordance with the company's articles of association. Zarina Bibi Mahomed Bassa, Leslie Alan Davies, Johan Enslin, Myra Sizakele Pinkie Marutlulle and Benedict James van der Ross offer themselves for re-election.

   Zarina Bibi Mahomed Bassa [45]
   Leslie Alan Davies [54]
   Johan Enslin [36]
   Myra Sizakele Pinkie Marutlulle [42]
   Benedict James van der Ross [63]

   Brief CVs of the directors are on pages 12 to 13.

   Appointment of Zarina Bibi Mahomed Bassa as director

2.1 "Resolved that Zarina Bibi Mohamed Bassa be and is hereby elected as director of the company."

   Appointment of Leslie Alan Davies as director

2.2 "Resolved that Leslie Alan Davies be and is hereby elected as director of the company."

   Appointment of Johan Enslin as director

2.3 "Resolved that Johan Enslin be and is hereby elected as director of the company."

   Appointment of Myra Sizakele Pinkie Marutlulle as director

2.4 "Resolved that Myra Sizakele Pinkie Marutlulle be and is hereby elected as director of the company."

   Appointment of Benedict James van der Ross as director

2.5 "Resolved that Benedict James van der Ross be and is hereby elected as director of the company."

3. **Ordinary resolution number 3**

   Approval of directors' fees for the year ended 31 March 2011

   "Resolved that the fees of the directors as reflected below be approved for the year to 31 March 2011:

Chairman	R390 000
Director	R185 000

   If a member of the Audit Committee the following additional amount:

Chairman	R190 000
Member	R80 000

   If a member of the Risk Committee the following additional amount:

Chairman	R90 000
Member	R45 000

   If a member of the Remuneration Committee the following additional amount:

Chairman	R90 000
Member	R45 000

   If a member of the Nomination Committee the following additional amount:

Chairman	R60 000
Member	R25 000

   If a member of the Transformation Committee the following additional amount:

Chairman	R60 000
Member	R25 000

   Invitation Fee:
   All non-executive directors who attend the committee meetings by invitation at the request of the board shall be eligible to receive a fee as if they were a member of the committee.

   The above fees comprise a base fee of 75% and an attendance fee of 25% which will be split evenly amongst the number of meetings held by the board or the relevant committee.

4. **Ordinary resolution number 4**

   Approval of reappointment of auditors

   "Resolved that the firm PricewaterhouseCoopers Inc and Zuhdi Abrahams as the designated auditor be reappointed for the ensuing year."

   The group's current external auditor is PricewaterhouseCoopers Inc, which has indicated that Mr Zuhdi Abrahams being a director of the firm and a registered auditor, will undertake the audit. The group's Audit Committee has recommended that the firm and the designated auditor be reappointed for the ensuing period, and that the terms of its engagement and fees be determined by the Audit Committee.

5. **Ordinary resolution number 5**

   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."

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

   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's 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 (Proprietary) Limited, 70 Marshall Street, Johannesburg, 2001 (PO 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 (Proprietary) 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

M G McConnell
Company Secretary

19 May 2010

NOTES

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 Lewis Group head office, 53A Victoria Road, Woodstock, on Friday, 13 August 2010 ("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 CSDPs 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 instruction 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 2.1 Election of Zarina Bibi Mahomed Bassa as director			
Ordinary resolution 2.2 Election of Leslie Alan Davies as director			
Ordinary resolution 2.3 Election of Johan Enslin as director			
Ordinary resolution 2.4 Election of Myra Sizakele Pinkie Marutlulle as director			
Ordinary resolution 2.5 Election of Benedict James van der Ross as director			
Ordinary resolution number 3 Approval of directors' fees for the year to 31 March 2011			
Ordinary resolution number 4 Approval of reappointment of auditors			
Ordinary resolution number 5 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 _____ 2010

Signature/s _____
(Authority of signatory to be attached if 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 (Proprietary) 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, 12 August 2010.

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.