Lewis Group Ltd

annual report 2008

contents

our mission

Lewis seeks to improve the quality of life for all our stakeholders and positively impacting on their lives in many significant ways.

As such we seek to be:

- a trusted collection of brands
- a learning organisation
- an integral part of the community
- an established, well-run business

our values

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

our pledge

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

corporate profile

Lewis Group Limited is an investment holding company listed on the JSE Limited in the General Retailers Sector. The group offers a selected range of furniture and appliances through its extensive network of 525 stores.

There are three wholly-owned South African-based subsidiaries, Lewis Stores, Monarch Insurance Company, Lifestyle Living and a number of wholly-owned companies trading in Botswana, Lesotho, Namibia and Swaziland.

"Built by loyal customers and loyal staff members."

retail brands

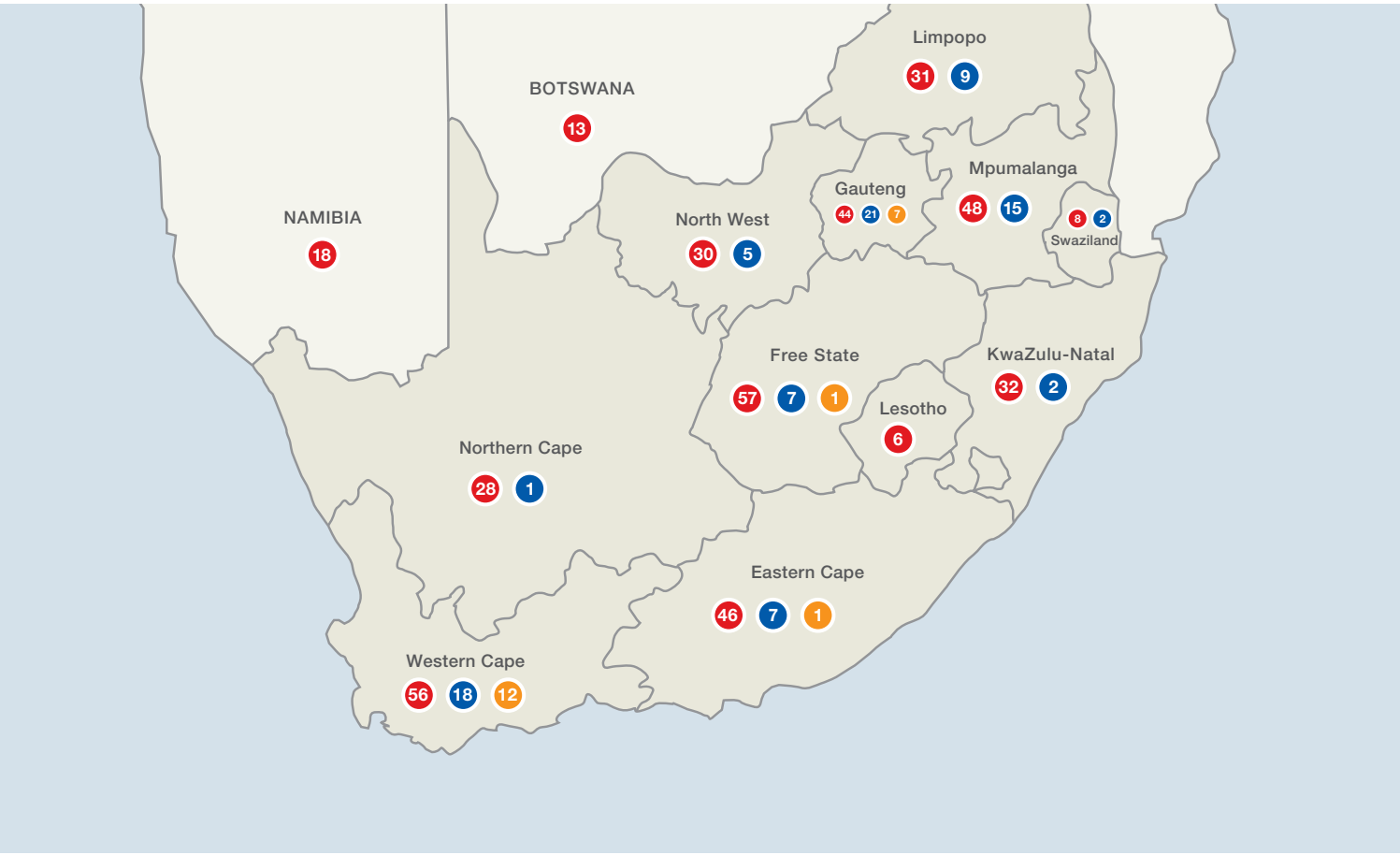
Lewis, the largest furniture brand with 417 stores, sells a wide range of household furniture, electrical appliances and home electronics to customers in the LSM 4 to 7 category.

Best Electric, with 87 branches, is a specialist electrical appliance and audiovisual brand also targeting consumers in the LSM 4 to 7 category.

Lifestyle Living, a growing niche furniture retailer with 21 stores, sells stylish furniture and accessories to consumers in the LSM 8 to 10 market.

Monarch Insurance Company offers Customer Protection Insurance products to the South African customer base.

geographical footprint

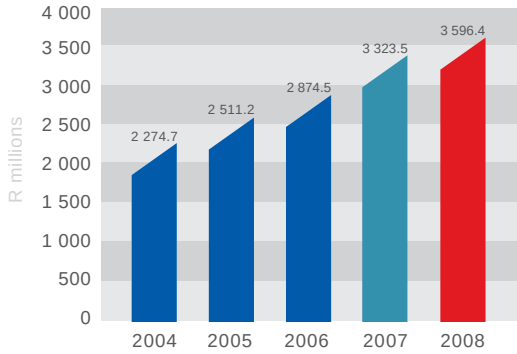


Country and province locations	Lewis	Best Electric	Lifestyle Living
South Africa			
Free State	57	7	1
Western Cape	56	18	12
Mpumalanga	48	15	–
Eastern Cape	46	7	1
Gauteng	44	21	7
KwaZulu-Natal	32	2	–
Limpopo	31	9	–
North West	30	5	–
Northern Cape	28	1	–
Namibia	18	–	–
Botswana	13	–	–
Swaziland	8	2	–
Lesotho	6	–	–
Stores as at 31 March 2008	417	87	21
Total stores	525		

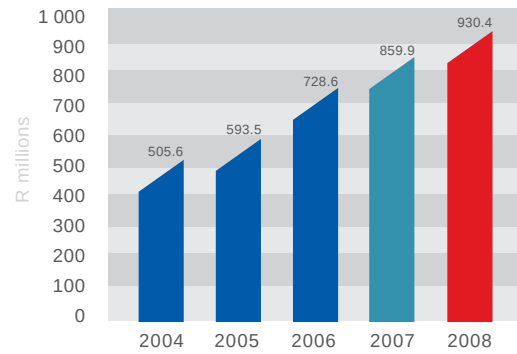
financial highlights

- Revenue **increased by 8.2%**
- Operating profit **increased by 8.2%**
- Earnings per share **up by 10.3%**
- Headline earnings per share **up by 6.9%**
- Dividend per share **up by 21.4%**

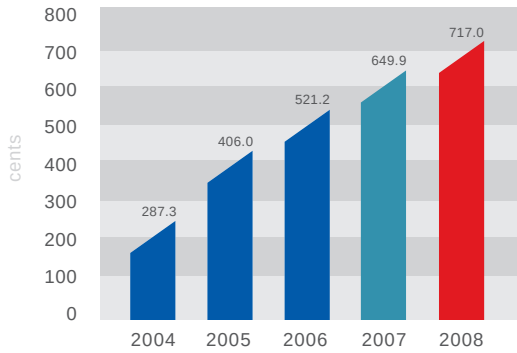
revenue



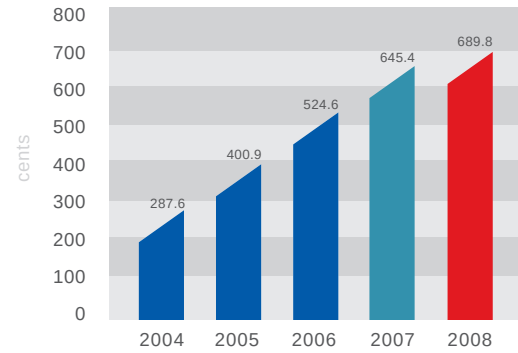
operating profit



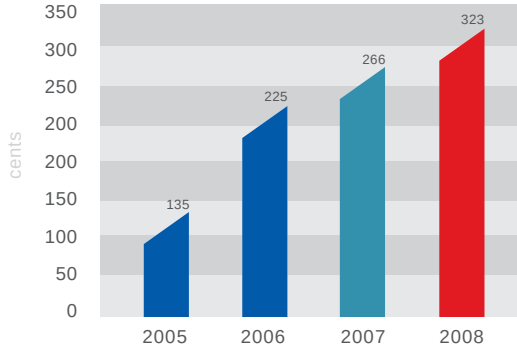
eps



headline eps



dividends declared



Because the Lewis group consistently offers choice, convenience and well managed credit we continue to build lifetime relationships. We are all proud of the long-term loyalty we share with our customers.

board of directors

From back top to bottom right: Les Davies, Ben van der Ross, Alan Smart, David Nurek, Hilton Saven and Professor Fatima Abrahams

Executive directors

Alan Smart (63)
Chief Executive Officer

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

Alan joined Lewis in 1969. During this period, he has held various financial and operational positions including credit director between 1981 and 1984 and joint managing director between 1984 and 1991.

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

Les Davies (52) – 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 (Pty) Ltd since April 1989. As chief financial officer, his responsibilities include the full accountability of all the group's financial aspects.

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

Non-executive directors

David Nurek (58) – Diploma in Law
Independent Non-executive Chairman of the board and Chairman of the Remuneration and Nomination Committee

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

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

David was appointed to the board of the group's insurer, Monarch Insurance Company Limited on 23 July 2007.

Hilton Saven (55) – BCom, CA(SA)
Independent Non-executive Director and Chairman of the Audit and Risk Committee

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

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

Ben van der Ross (61) – 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 amongst others: Naspers Limited, FirstRand Limited, Pick n Pay Stores Limited and Momentum Group Limited.

Professor Fatima Abrahams (45) – BEcon (Hons), MCom, DCom
Independent Non-executive Director and Chairperson of the Transformation Committee

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

Fatima is currently a professor in the Department of Industrial Psychology at the University of the Western Cape and is the chairperson of TSIBA Education, 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.

chairman's report

David Nurek: independent non-executive chairman

"Our customer-centric business model improves sales and collections."

Introduction

The 2008 financial year was characterised by a rapidly deteriorating trading environment (particularly in the second half) as a result of declining economic conditions. The Lewis Group experienced one of its most difficult trading periods in recent years, but that notwithstanding, the group has produced positive results and performed admirably.

Business environment

South African consumers are under growing pressure as a result of the 500 basis points increase in interest rates since 2006, including the most recent hike announced in April. This has seen the prime lending rate soaring from 10.5% to 15.5% in just two years. There are now expectations of further increases to follow.

These further rate hikes have taken their toll on consumers who are also battling against extremely high food price inflation and rapidly rising fuel and transport costs. These factors have all contributed to a decline in consumer confidence during the year under review.

The past year has also seen the introduction of the National Credit Act and was successfully implemented without disruption to the business.

Business model

Plans by competitors to separate their furniture retail and financial services businesses has attracted significant comment in the financial media.

Lewis' customer-centric business model is based on the premise that the selling of furniture and the provision of credit are inter-dependent. This store-based model enables the group to develop strong relationships with its customers over the entire contract period when customers visit stores to pay their accounts. This not only improves credit collection rates but also results in a high level of repeat sales.

This model has proved most effective in Lewis' middle income target market and the board and management have no plans to deviate from this formula.

The group has enhanced its disclosure this year to provide shareholders with a greater understanding of the performance of its retail, risk (insurance) and financial services segments.

Financial performance

The slowdown in consumer spending in South Africa has impacted our financial performance. Revenue increased by 8.2% to R3 596.4 million, with merchandise sales growing by 4.5% to R1 889.7 million.

Earnings for the year grew 10.3% to 717.0 cents and headline earnings per share up 6.9% at 689.8 cents per share.

The board has taken a decision to reduce the dividend cover from 2.25 times to 2.0 times earnings cover. Accordingly, shareholders will receive dividends of 323 cents per share for the year, an increase of 21.4% over 2007.

A further 2.6% of shares in issue were repurchased during the financial year, bringing total repurchases to 10.1% of shares in issue. The group's balance sheet remains strong and the level of gearing is comfortably within the parameters determined by the board.

Maintenance of dividend cover and share repurchases remain key elements of the group's capital management strategy.

We believe the group has performed well in adverse market conditions.

Directorate and management

Lewis has a strong philosophy of developing management talent and promoting from within its own ranks to sustain the powerful culture that exists within the group.

As part of succession planning and to maintain that culture, Les Davies (21 years' service) was appointed to the board as an executive director and Johan Enslin (15 years' service) was promoted to chief operating officer of the group on 1 April 2007.

Corporate governance

The group is committed to maintaining a high standard of corporate governance. New committees have been established (refer Corporate Governance report) and refinements to existing practices implemented to assist the board in discharging its responsibilities and to monitor the various business risks and challenges facing the group.

Corporate social responsibility

Corporate social responsibility is integral to the business strategy with the group committed to uplifting the communities which we serve. During the year, support has been focused on education and training as well as on health and social development.

Prospects

While the trading environment is expected to remain tough in the year ahead, the continued growth of the middle income market is expected to afford sustained opportunities for the group. The board and management remains positive on the outlook for 2009/10 and beyond as growth should be supported by ongoing infrastructure spending by the public sector, employment creation and real wage increases in the Lewis target market. In the absence of any further deterioration in the economic environment, shareholders can expect continued earnings growth in 2009.

Appreciation

On behalf of the board I would like to compliment Alan and the executive management team on the manner in which they have led the business in a very difficult environment. Thank you to my fellow directors for their guidance and active contribution to the board process.

David Nurek
Independent Non-executive Chairman

chief executive officer's report

Alan Smart: group chief executive officer

"Our business model is robust and sustainable."

Introduction

After one of the most protracted retail booms in recent history, consumers have come under increasing pressure over the past year which has led to a slowing down of performance in the retail sector. In the face of the deteriorating environment, Lewis has continued to focus on the basics of retailing in the knowledge that our business model is robust, our strategies are appropriate and that our franchise is sustainable.

Trading environment

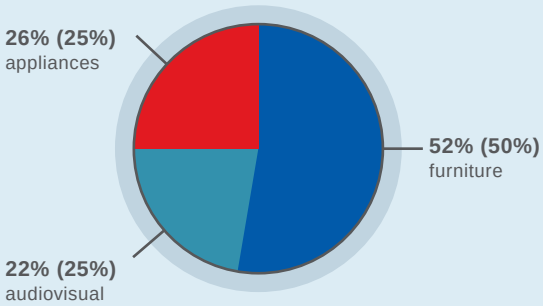
The challenges faced by the furniture retail sector over the past year have been compounded by continually rising interest rates, spiralling food prices and higher transport and fuel costs.

In response to these difficult trading conditions, the group implemented several trading strategies, including increasing the volume of local and store promotions, maximising the re-serve programme and incorporating customer valuation models into the re-serve strategies allowing for better customer segmentation and targeting of promotional offers. Top-rated customers have received additional benefits with their purchases, including extended credit terms of 30 and 36 months. This promotional tool supported sales momentum at no additional charge for risk.

Trading performance

Revenue increased by 8.2% to R3 596.4 million, with merchandise sales increasing 4.5% to R1 889.7 million. Lewis grew it's revenue by 7.8% and merchandise sales by 4.1%. Best Electric's revenue increased by 11.9% and merchandise sales by 7.4%. Lifestyle Living's revenue has grown by 9.1% with sales growth of 5.0%.

product range



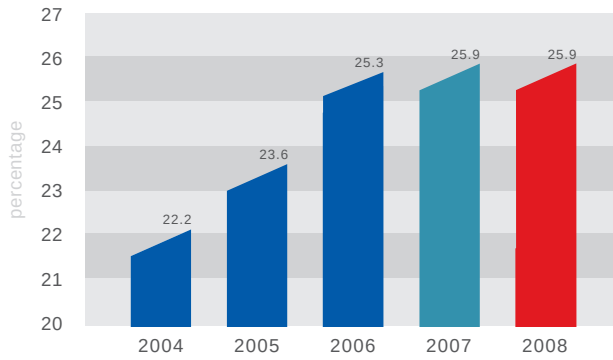
It is positive to note that our core business namely furniture (52% of the business) and appliances (26% of the business) reflected merchandise sales increases of 9% and 8.9% respectively. The sound and vision section of the business (22% of the business) is traditionally a discretionary spend during difficult times and was most affected, reflecting an 11% decrease.

The furniture import programme was further enhanced during the year to secure more exclusive lines offering genuine value-for-money for customers. The strong focus on furniture procurement had the desired impact on the product mix, with furniture accounting for 52% of total merchandise sales compared to 47% a number of years ago.

An electronic merchandise catalogue was introduced into all stores during the year to showcase the group's entire range of product, colour and fabric options which are not always available in all stores. This user-friendly, touch screen catalogue is expected to improve sales efficiencies and reduce costs.

Increased promotional and discount campaigns aimed at retaining and attracting new customers impacted the gross margin which declined from 34.0% in 2007 to 32.7%. More than 40 000 new and settled customers were activated during the year.

operating margin



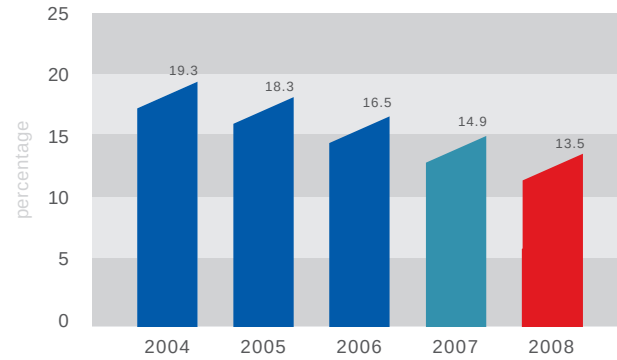
Operating profit rose by 8.2% to R930.4 million. Operating margin at 25.9% has been maintained at the same level as last year under challenging conditions and is reflecting the group's continued focus on its core disciplines.

Debtors

The debtors book is the core asset of the group and the maintenance of the health of the debtors book is a prime focus of management.

Debtor costs of 6.5% of net debtors (2007: 5.8%) illustrates the group's core strength of debtor management in challenging conditions. Independent centralised credit granting and a decentralised store-based collection process has contributed to the quality of the debtors book. The doubtful debt provision percentage has shown an improvement to 13.5% as compared to 14.9% last year. The lower doubtful debt provision percentage (calculated on the same basis as last year) is due to the write-off of older provisioned accounts.

doubtful debt provision as a % of net debtors



The group operates a system whereby individual payment ratings are assigned to each customer, based on the payment performance over the lifetime of the account. Using these payment ratings, the percentage of satisfactory paid customers (being those who paid 70% or more of accounts due over the contract period) was 75.1% as compared to 76.4% in the prior period. The slight decline represents only 7 856 customers out of a total base of 711 588 customers. This underlines the continued quality of the debtors book.

chief executive officer's report continued

The introduction of the National Credit Act ("NCA") enabled the business to extend credit terms for top-rated customers. The condition of the extended term accounts is similar to that of shorter-term accounts, being 24 months or less. Extended term accounts do provide additional ancillary revenue opportunities as well as making "big-ticket" purchases more affordable.

Segmental performance

The group has enhanced its segmental reporting to provide shareholders with a greater understanding of retail, risk (insurance) and financial services segments.

Lewis is a high margin business and this is illustrated by the performance of all three segments with retail operating margins at 14.4%, risk services (insurance) 31.1% and financial services at 50.2%.

Store expansion

The store base has continued to expand across the three retail chains, opening 22 new stores in Lewis (11), Best Electric (8) and Lifestyle Living (3) to increase the national store base to 525.

Lewis remains the single largest furniture brand in the country with 417 stores, with Best Electric growing to 87 stores in less than ten years and Lifestyle Living operating 21 stores.

Legislation

The NCA was successfully integrated into the group's operations on the implementation date of 1 June 2007. For the past three years Lewis has used an affordability test for all credit applications which is very similar to the calculation required under the NCA. The changes in our credit granting processes were therefore minimal and the transition to the NCA proceeded without any disruptions to the business.

Growth strategy

Our strategic objectives remain unchanged, and the group will strive to increase sales from existing stores, drive customer acquisition and retention, and maintain the quality of the debtors book. Merchandising underlies the success of the sales effort and product sourcing will be expanded as we try to maximise this competitive advantage.

Continued growth in the Lewis target market will create opportunities for further store expansion, and we anticipate opening between 15 and 20 stores in the new financial year.

Organic growth has always been the preferred strategy for Lewis but the group is constantly evaluating growth opportunities within its areas of competency which are broader than furniture retailing. A joint venture to market African Life/Sanlam products is in operation.

Further consolidation is expected in the furniture sector and this will be positive for Lewis.

Outlook

There has been a steady growth in Lewis' target market of LSM 4 – 7 consumers in recent years as more South Africans have entered formal employment and opportunities have been afforded to the previously disadvantaged. Based on the 2007 AMPS survey, our target market accounts for 53% of the country's population or 16.5 million people, up from 44.6% of the population in 2001. This reflects the potential of the middle income segment which we serve.

Trading conditions are expected to remain tough while external factors such as oil prices and food inflation affects our target market. On the positive side, there are no signs of increased unemployment. Infrastructural spend and job creation in certain sectors remains encouraging.

Lewis has an experienced management team that has traded successfully in periods of downturn in the past and we have every confidence in their ability to lead the business in the current environment. Brand loyalty also plays an increasing role in tough times and the group has a portfolio of well-established brands with a loyal customer base of over 700 000 people.

Thanks

In closing I would like to pay tribute to the contribution of our staff and management at head office and at our stores countrywide who take so much pride in belonging to the Lewis Group. Thank you to our suppliers and manufacturers both locally and abroad as well as our business partners, the investment community and media for your support. We are committed to serving our customers and thank them for the loyalty they continue to show to our brands.

Alan Smart
Group Chief Executive Officer

Many customers came to shop with us
at the recommendation of relatives and friends.
Lewis merchandise has filled many homes and memories.
That's why customers keep coming back.

executive committee

From back left to bottom right: Les Davies, Chris Heiberg, Brett van Aswegen, Johan Enslin, Charles Irwin and Alan Smart

Operating board of Lewis Stores (Pty) Ltd

Alan Smart (63)
Chief Executive Officer

Alan Smart is the chief executive officer and his biography is on page 7.

Les Davies (52) CA(SA)
Chief Financial Officer

Les Davies is the chief financial officer and his biography is on page 7.

Johan Enslin (34)
Chief Operating Officer

Johan was appointed chief operating officer of the group with effect 1 April 2007. He is responsible for the entire retail operations of the group.

Johan joined the Lewis Group 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 (Pty) Ltd, being responsible for all facets of Lewis and Best Electric store operations.

Chris Heiberg (60)
Group Marketing and Merchandise Director

Chris has been the merchandise and marketing director of Lewis Stores (Pty) Ltd since February 1984. His responsibilities include the management of all product offerings to consumers and marketing strategies for all Lewis' divisions.

Chris' career with Lewis Group spans over 30 years. He became a regional controller in April 1980 and a divisional general manager in April 1982. In 1984, he was appointed merchandise and marketing director.

Charles Irwin (54)
Group IT Director

Charles has been IT director of Lewis Stores (Pty) Ltd 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 (33) – 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 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 (Pty) Ltd as credit risk director on 1 September 2006.

chief financial officer's report

Les Davies: chief financial officer

"Revenue and operating profit grew by 8.2% ... headline earnings per share increased by 6.9% ... dividend per share up by 21.4%."

Introduction

The overall trading environment has been difficult and it is pleasing to report to shareholders that the group has increased its earnings per share and headline earnings per share by 10.3% and 6.9% respectively. The trading results have been shaped by increases in revenue of 8.2%, maintenance of the quality of the debtors book, control over expenses and solid cash flows.

The board improved dividend cover to 2 with the result that dividends declared for the year totalled 323 cents, reflecting a 21.4% increase over 2007. Our share repurchase programme continued this year with an additional 2.6% of issued shares repurchased. The group will continue to return excess capital to shareholders in terms of its capital management program.

Revenue recognition

There has been recent media attention given to a number of revenue recognition practices employed in the furniture retail industry, particularly insurance revenue recognition.

Insurance revenue

Insurance revenue is earned over the period of the customer's contract.

Monarch provides insurance products to customers purchasing merchandise on credit to cover the outstanding debt and other insurable risks.

Monarch insures 40% of its insurance book with an independent third-party reinsurer with the risk transferring to the reinsurer. Monarch retains a premium reserve of 40% of the ceded premiums which has the effect of deferring reinsurance revenue. As at 31 March 2008, this reserve totalled R101.8 million.

The group accounts for the insurance revenue in terms of its contractual relationship with the parties. Over a 24-month contract, the application of this policy results in 55% of the gross insurance revenue being recognised in the first 12 months of the contract.

The following balance sheet reserves and provisions illustrate our recognition policies regarding deferment of insurance revenue:

	Rm	
	2008	2007
Unearned premiums	**290.5**	214.3
Contingency reserve	**41.2**	32.2
Insurance provisions	**32.8**	26.0
Reinsurer's premium reserve	**101.8**	75.4
	466.3	347.9

The accounting policies relating to insurance and reinsurance revenue have remained unchanged for many years.

Initiation fees

Initiation fees were introduced with the implementation of the National Credit Act ("NCA"). Initiation fee revenue and directly related costs are recognised over the period of the contract on an effective yield basis.

Income statement analysis

Revenue comprising merchandise sales, finance charges, ancillary services and insurance income, grew by 8.2% to R3 596.4 million (2007: R3 323.5 million).

The revenue mix changed with the introduction of the National Credit Act. Ancillary service income grew by 27.2% with the introduction of initiation and service fees. The 21.4% increase in insurance premiums is due to the earn-out of premiums raised during prior buoyant trading periods and an adjustment to the insurance fee structure. Finance charges grew at a modest rate of 2.3% as a result of the NCA requirement that finance charges cannot be levied on insurance premiums.

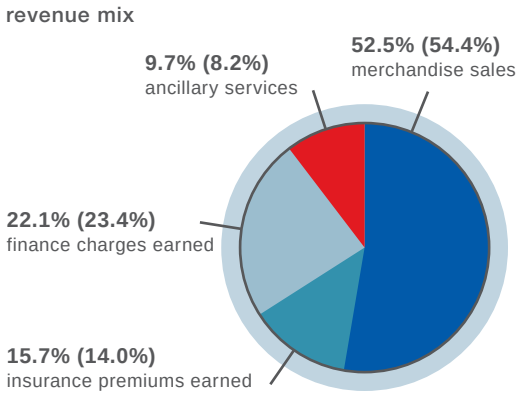
Merchandise sales increased by 4.5% to R1 889.7 million. The merchandise gross margin this year has declined slightly as a result of promotional activity to retain customers.

Debtors costs reflected an increase of 28.7% as a result of the tougher collection environment.

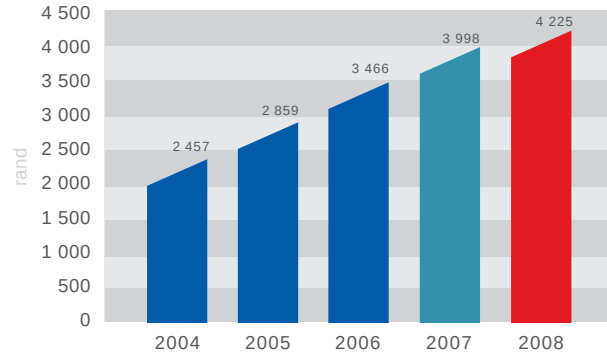
Operating expenses, excluding debtor costs, as a percentage of revenue, improved from 33.8% last year to 33.5% this year. The drive for operational efficiency remains a priority in the business. The main trends in the expenditure are as follows:

- occupancy costs increased by 15.8%, reflecting the effect of lease averaging and lease renewals;
- transport and travel increased as a consequence of rising fuel costs; and
- other operating costs increased by 19.4% as a result of the loss of a publishing contract.

revenue mix



operating profit per square metre



Operating profit grew by 8.2% to R 930.4 million.

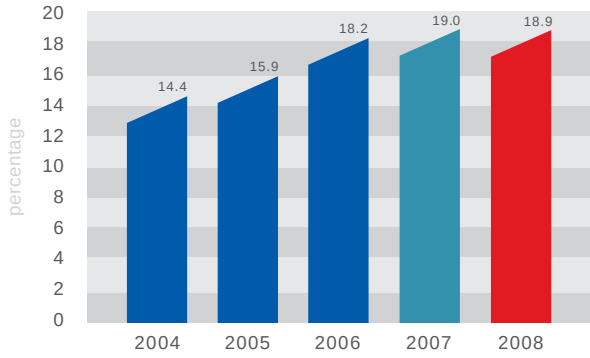
chief financial officer's report continued

Investment income consists mainly of interest and dividend income on listed investments held by Monarch. The investments are long-term and only traded when there is a need to rebalance the portfolio. The increase in investment income is due to realised profits of R 22.1 million arising from an investment policy maturing and profit on equities.

Net finance costs increased as a result of higher gearing.

The effective tax rate is currently 32.1%. The tax rate next year is expected to remain stable with the lower corporate rate of 28% offset by the higher STC payments on the improved dividend distribution.

return on assets managed



Attributable profit rose by 7.4%. The return on average assets managed was 18.9% (2007: 19%) and the return on average equity 24.4% (2007: 24.8%).

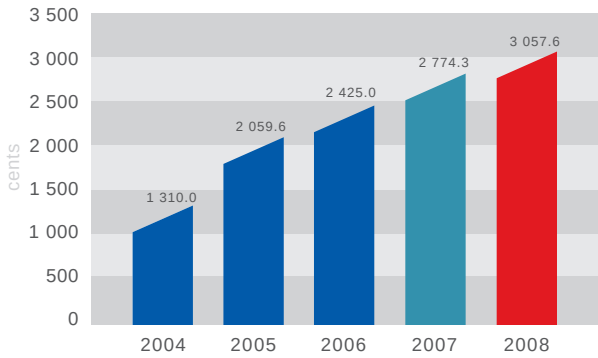
Balance sheet review

Insurance investments supporting the solvency and technical reserve requirements of the Short-term Insurance Act have remained flat in keeping with our policy to manage capital within our insurance subsidiary.

Inventory levels were at similar levels to prior year. Inventory turn has improved to 5.5 from the 5.2 of last year.

The increase in net debtors can be attributed to the extended credit granted to top-rated existing customers. The provision for doubtful debt percentage has reduced to 13.5% of net debtors (2007: 14.9%), reflecting the continued good health of our debtors book.

net asset value per share



Net asset value per share has increased to R30.58 per share, an increase of 10.2% over the prior year. Over the last five years, the net asset value per share has more than doubled from R13.10 per share to its current value.

Cash flow

Operating cash flows during the year have funded the following:

- increased working capital requirements of R439.7 million (mainly debtors);
- share repurchases of R162.4 million; and
- dividends paid during the year of R262.7 million.

Borrowings have increased by R243 million and gearing is now 23.3% (2006: 15.6%).

Changes in equity

The decrease in other reserves reflects the market value of Monarch investments and the realised investment profits.

The reduction in capital results from share repurchases of 2.6% during the year at a cost of R162.4 million.

International financial reporting standards

IFRS 7 and the revised IAS 1 became effective this financial year. There is no impact on the measurement of profitability, but only additional disclosure requirements. These disclosures are largely reflected in notes 26 to 29 to the annual financial statements.

Les Davies
Chief Financial Officer

marketing and merchandising

Chris Heiberg: marketing and merchandising director

"Merchandise quality ensures customer loyalty, resulting in repeat sales."

Marketing

Marketing is a strategic discipline within the group, spearheading the sales drive to attract new customers by creating awareness and affinity with the brands, as well as entrenching customer loyalty to generate repeat sales.

The group's success in raising awareness levels saw Lewis ranked second for the fourth successive year among furniture retailers in the authoritative Markinor Top Brands survey, narrowing the gap significantly on the first placed competitor over this period.

The loyalty created with customers over many years has led to 58% of sales in the past financial year being generated from current and settled customers. Through a "re-serve" programme customers are identified for further credit extension based on their payment history and current level of indebtedness to the group. Direct mailings and promotional offers are then targeted at these customers. Targeted segmentation of the customer base was further refined this year, with our top-rated customers receiving a variety of special promotional offers, depending on their credit record with Lewis.

Lewis' merchandise-driven advertising strategy focuses on:

- Monthly promotional campaigns through brochure distribution in selected areas.
- Television advertising to build the brand and attract new customers.
- All current and recently-settled customers receiving a monthly brochure mailing and targeted promotional offers.

Brochures are also distributed using the "knock and drop" method into catchment areas with the highest potential for attracting new customers, eliminating areas which attract a low sales return. Leaflets supporting each brochure campaign are also distributed in high traffic areas during peak commuting times.

Local promotions at store level are used to regain settled and retain current customers. Personalised promotions have also been introduced to expose customers to the unique Lewis experience. Joint promotions with corporate partners are also used to attract new customers.

Marketing campaigns focus on real customer benefits, exclusive ranges, guaranteed quality of merchandise, superior service, rapid credit granting and merchandise delivery within 48 hours.

The marketing strategy adopted for Lifestyle Living reflects its positioning in a higher income market to the two other chains. Advertising in monthly magazines and weekly regional press is supplemented by seasonal catalogues featuring new merchandise ranges which are inserted into targeted magazines.

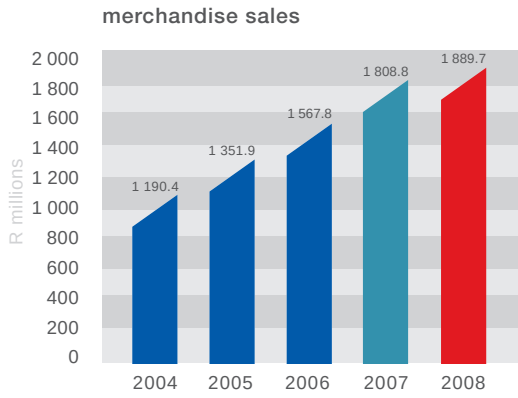
All promotional material, print advertisements and television commercials are produced by our in-house advertising studio. The media buying function, which was previously outsourced, has now been integrated into the advertising studio to better align with the marketing strategies and to realise cost-efficiencies.

The Lewis Club is a customer loyalty programme offering free membership to any customer taking out insurance when purchasing merchandise at Lewis.

The Lewis Club is a powerful marketing mechanism as all members receive a magazine each month. The magazine has a readership of over two million people and includes special offers, discount coupons and competitions. The editorial content focuses on general interest and topical lifestyle issues relevant to the Lewis customer profile.

marketing and merchandising continued

Merchandising



The merchandising strategy is aimed at driving sales and top-line gross profit through exclusive, differentiated merchandise offerings and attracting customers into stores through quality promotional lines. This was achieved by sourcing new, exclusive lines locally and internationally that offer both quality and value.

The procurement strategy has enabled Lewis to create a distinctive merchandise range and avoid the lack of variation which is common in the middle income furniture market.

Sourcing products from a diverse range of suppliers domestically and offshore has not only ensured exclusivity but has also afforded margin opportunities. Direct imports accounted for 26.6% of the group's total purchases in the year.

Imported merchandise is balanced with locally manufactured furniture, where the group sources a large proportion of furniture from suppliers that can offer product differentiation. Products are also sourced from regional manufacturers which improves inventory levels in stores, reduces delivery lead times and lowers costs.

An objective of the merchandising function is to grow the proportion of furniture sales, as furniture generally has a higher margin than appliances and audiovisual products. The furniture import programme has contributed to a positive shift in the product mix with furniture sales growing from 47% of total sales in 2004 to 52% this year. Electrical appliances accounted for 26% (2007: 25%) and audiovisual products 22% (2007: 25%). While audiovisual sales have slowed markedly over the past year, the group has still performed well relative to the overall trend in the audiovisual sector and this can be attributed to the range of exclusive, aspirational brands sold by the group.

Merchandise innovation remains a competitive advantage of Lewis, and new designs, manufacturing techniques, fashion trends, alternate wood and other materials are constantly being sourced to offer our customers attractive and exclusive merchandise at affordable prices.

As part of the group's commitment to quality, all products are supported by local after-sales service. Quality control on imports is contracted to a Hong Kong-based supply specialist that manages and supports all imports.

In the year ahead the merchandising team will focus on expanding the range of exclusive brands available to the group's target market and further strengthening strategic relationships with suppliers both locally and offshore.

The Lewis distribution model is based on merchandise being delivered directly by suppliers to stores which increases efficiency and eliminates costly distribution centres and warehouses. Stores are responsible for their own deliveries to customers, with an average of 90% of deliveries being completed within 24 hours of the sale.

From left to right: Petros Zitha, Derek Loudon, Rob Jacobs, Ivan King, Johan Steenkamp, Chris Heiberg.
Absent: Rowan Hunt.

operations

Johan Enslin: chief operating officer

"Delivering outstanding customer service is paramount to the group's success."

Store operations

The group's customer-centric business model is reflected in the operational structure which services:

- over 700 000 customers spread throughout Southern Africa,
- through a network of 525 stores across the Lewis, Best Electric and Lifestyle Living chains, and
- employs approximately 6 700 sales, administrative staff and management.

Stores are accountable for all aspects of the customer relationship, including sales and credit collection. This decentralised structure empowers store managers to make decisions which influence the performance of their stores, as well as engendering customer loyalty by building up relationships over the lifecycle of a contract, as evidenced by a high percentage of sales in the past year being generated from existing customers.

Managers are remunerated according to this philosophy, earning a basic salary and incentives based on sales, credit collections and profitability. Sales staff are largely commission-based and are incentivised for achieving performance targets. Credit collection staff are also rewarded for outperforming collection targets.

Training is an ongoing priority for the group, particularly in the area of product knowledge. Lewis Live, a weekly training programme broadcast on the in-house television system, features two products each week and all sales people are tested on their knowledge of these products. Since inception, more than 100 programmes have been broadcast through Lewis Live and the group is currently seeking accreditation for these programmes from SAQA/SETA. Currently about 50 training programmes are being produced per annum for broadcast. Lewis Live was extended to Best Electric stores during the year. The feedback from staff has been extremely positive.

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 85% (2007: 83%) of the

total staff complement, with 90% of store staff and 56% of store management being from previously disadvantaged groups.

Delivering outstanding customer service is paramount to the group's success and the customer satisfaction level recorded over the past year has improved to a gratifying 98% of customers surveyed.

Management is committed to continually improving service levels, with resources being allocated to both formal research among customers and to recognising staff for providing superior service.

Electronic merchandise catalogue

Furniture retailers are seldom able to stock a complete merchandise range in stores owing to the physical constraints of trading space. Furniture products are also available in a matrix of configurations, colours and fabric types, further complicating the customers' purchasing decision. These features are also difficult to illustrate in static media, brochures and in-store displays.

In response to this challenge, the group launched an electronic merchandise catalogue in October 2007. This user-friendly electronic catalogue will enable customers to view and particularly salespersons to offer the entire range of latest product, colour and fabric options together with pricing items, etc.

The catalogue leverages off the current IT infrastructure at stores, with minimal operating costs. This will contribute to increased sales efficiencies and cost containment at store level, as well as improving the sales mix across the chains. The catalogue further enhances the customer experience and will result in improved sales.

operations continued

Segmental performance

Retail

	2008	% Change	2007
Revenue	**2 141.0**	4.7%	2 044.9
Cost of sales	**(1 272.1)**		(1 194.0)
Trading profit	**868.9**		850.9
Net operating costs	**(561.6)**	6.1%	(529.2)
Operating profit	**307.3**		321.7
Operating margin	**14.4%**		15.7%

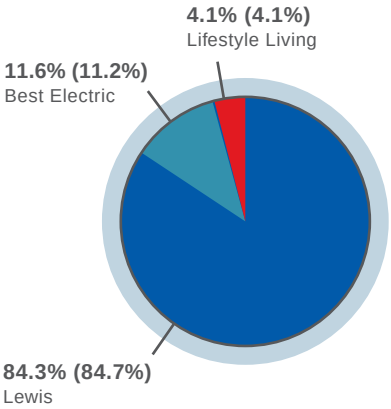
The retail segment encompasses the sale of merchandise and ancillary services such as delivery and maintenance contracts.

Revenue increased by 4.7% with merchandise sales up by 4.5%. Net operating margin declined from 15.7% in 2007 to 14.4% as a consequence of difficult trading conditions. Operating costs reflected a 6.1% increase.

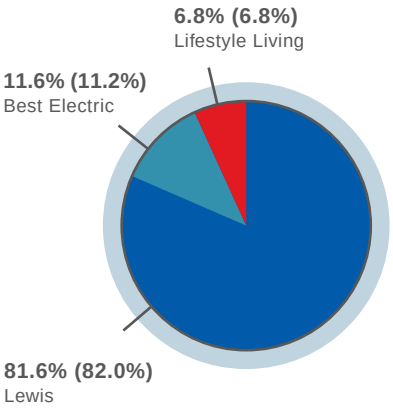
The bulk of the group's retail revenue is generated by the Lewis chain. Best Electric's contribution has increased over the years due to its store expansion programme. The Lifestyle Living chain still remains a modest contributor.

Detailed analysis of each brand's performance is provided opposite.

revenue



merchandise sales

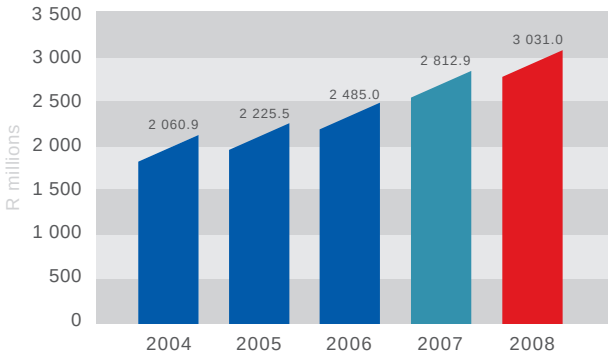


From left to right: Johan Meyer, Neil Timm, Johan Enslin, Rinus Olifant, Andre Strydom

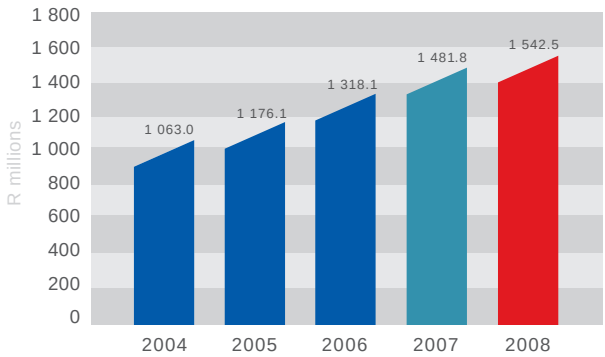
Lewis

Lewis is South Africa's single largest furniture brand with 417 stores, including 45 stores in the neighbouring countries of Botswana, Lesotho, Namibia and Swaziland. The chain 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 store managers then select a further optional range to cater for specific markets and regional differences.

revenue: Lewis



merchandise sales: Lewis



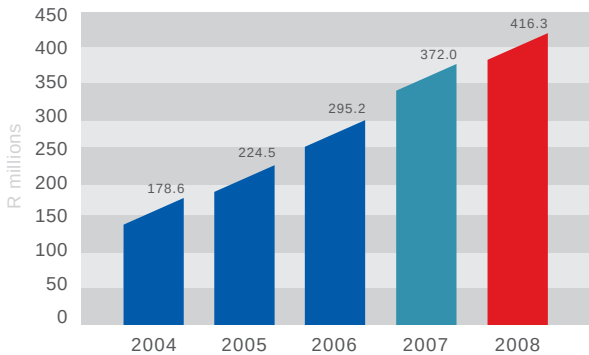
Lewis		2008	2007
Total revenue, including risk and financial services revenue	Rm	**3 031.1**	2 812.9
Total revenue growth	%	**7.8**	13.0
Merchandise sales	Rm	**1 542.5**	1 481.8
Merchandise sales growth	%	**4.1**	12.4
Comparable store merchandise sales growth	%	**1.8**	10.9
New stores opened during year		**11**	11
Number of stores		**417**	407
Total trading space	m^2	**198 282**	194 395
Annual revenue per m^2	R'000	**15.3**	14.5
Credit sales	%	**70.8**	72.4

Best Electric

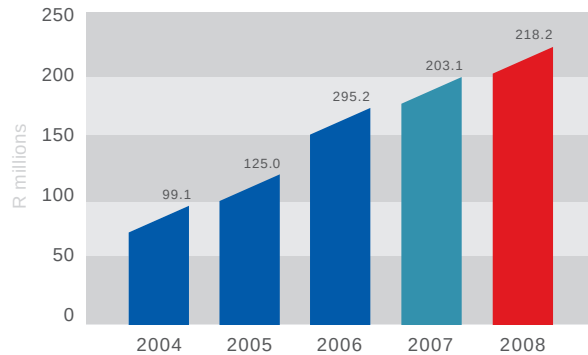
Best Electric is a specialist electrical appliance and audiovisual retail brand which targets a similar customer profile to Lewis in the LSM 4 to 7 groups.

Best Electric offers exclusive branded merchandise which is differentiated from Lewis to create a distinctive electrical goods brand. The branded merchandise is fully supported by local distributors. Stores are generally situated in high traffic areas with high trading densities.

revenue: Best Electric



merchandise sales: Best Electric

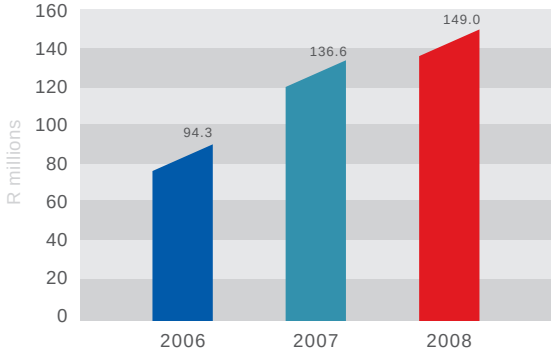


Best Electric		2008	2007
Total revenue, including risk and financial services revenue	Rm	**416.3**	372.0
Total revenue growth	%	**11.9**	26.0
Merchandise sales	Rm	**218.2**	203.1
Merchandise sales growth	%	**7.5**	23.6
Comparable store merchandise sales growth	%	**(1.1)**	7.5
New stores opened during year		**8**	7
Number of stores		**87**	79
Total trading space	m^2	**12 686**	11 789
Annual revenue per m^2	R'000	**32.8**	31.6
Credit sales	%	**63.4**	66.3

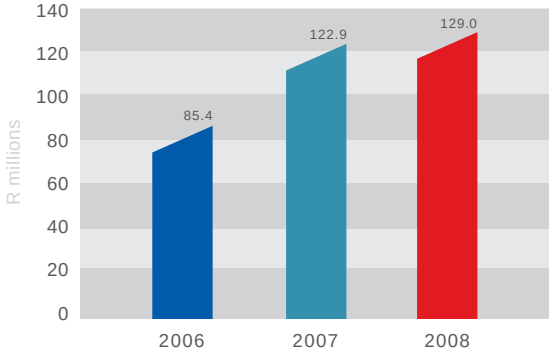
Lifestyle Living

Lifestyle Living is a niche retailer of stylish and contemporary furniture to consumers in the LSM 8 to 10 market.

revenue: Lifestyle Living



merchandise sales: Lifestyle Living



Lifestyle Living		**2008**	2007
Total revenue, including risk and financial services revenue	Rm	**149.0**	136.6
Total revenue growth	%	**9.1**	44.0
Merchandise sales	Rm	**129.0**	122.9
Merchandise sales growth	%	**5.0**	43.9
Comparable store merchandise sales growth	%	**(9.4)**	23.7
New stores opened during year		**3**	4
Number of stores		**21**	19
Total trading space	m^2	**9 268**	8 371
Annual revenue per m^2	R'000	**16.1**	15.1
Credit sales	%	**26.6**	36.7

Financial services

	2008	% Change	2007
Revenue	**891.1**	9.5%	813.9
Debtors costs	**(190.4)**	28.7%	(147.9)
Other operating costs*	**(253.0)**	(18.7%)	(311.2)
Operating profit	**447.7**		354.8
Operating margin	**50.2%**		43.6%

* Operating costs benefited from an additional recovery of costs on an arm's length basis from risk services during the year.

Financial services covers the management and collection of the debtors book. Revenue earned includes finance charges, initiation and service fees charged on customer accounts.

Financial services revenue increased by 9.5%. This was mainly the result of initiation fees and monthly service fees introduced with the implementation of the National Credit Act ("NCA"). Finance charges grew at a modest rate of 2.3% as a result of the requirement of the NCA that finance charges cannot be levied on insurance premiums.

Debtors costs increased by 28.7% and operating margins increased from 43.6% to 50.2%.

Full details of the division's main activities has been set out in the Credit Report on page 34.

Monarch
Insurance Company Ltd.

Risk services (Insurance)

	2008	% Change	2007
Revenue	**564.3**	21.4%	464.7
Operating costs*	**(388.9)**	38.3%	(281.3)
Operating profit	**175.4**		183.4
Operating margin	**31.1%**		39.5%

* See Financial services

Risk services covers the activities of the group's insurer, Monarch Insurance Company Limited ("Monarch").

Revenue has increased by 21.4% due to the earn-out of premiums raised during prior buoyant trading periods and an adjustment to the insurance fee structure.

Operating costs covers policy administration, collection and accounting for premiums. The segment leverages off the group's existing infrastructure. The operating margin declined from 39.5% to 31.1% in 2008.

Monarch

Customers purchasing goods on credit are required to have insurance cover for the duration of the contract. In the event of a customer not having such cover, Monarch offers a range of insurance products.

The basic insurance package covers customers for the duration of their contracts and includes the settlement of the 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 a natural disaster. A retrenchment cover benefit is also available. Customers taking out insurance products through Monarch qualify for free membership of the Lewis Club.

Monarch operates under a restricted short-term insurance licence and is registered with the Financial Services Board. The Short-term Insurance Act requires the company to hold assets to meet future financial obligations. Total insurance assets amount to R664.9 million at year-end.

The investment of the insurance portfolio is outsourced to Sanlam Investment Management ("SIM"). The investment and asset allocation strategies are determined by SIM in consultation with the boards of Lewis and Monarch. Funds may only be invested in specific, conservative asset classes and within prescribed regulatory limits.

Contracted third-party insurance partners in Botswana, Lesotho, Namibia and Swaziland allow the group to offer customers similar insurance products on their credit purchases.

credit

Brett van Aswegen: credit risk director

"Centralised credit scoring reduces credit risk."

Credit management

Lewis remains at the forefront of technology-based credit scoring systems to determine the credit risk of applicants. The implementation of these scorecards, together with ongoing improvements in customer segmentation, enables Lewis to reduce its credit risk levels and increase the volume of re-servable customers.

All credit applications are transmitted by the stores via the VSAT Satellite Network to the Transact Strategy Management credit application processing system. Transact interfaces with several databases, including the internal client payment history, the credit bureau, the national loans registry and the Hunter fraud database before passing the consolidated information onto the Strategy Manager system, where the credit application scorecards and credit policy rules are applied (refer diagram 1). A decision is then relayed to the store. A scorecard decision to decline a credit application may be appealed by a store manager to the credit referral department at head office who will review the decision. The final decision, however, rests with the head office credit underwriter and no store operator may override this decision.

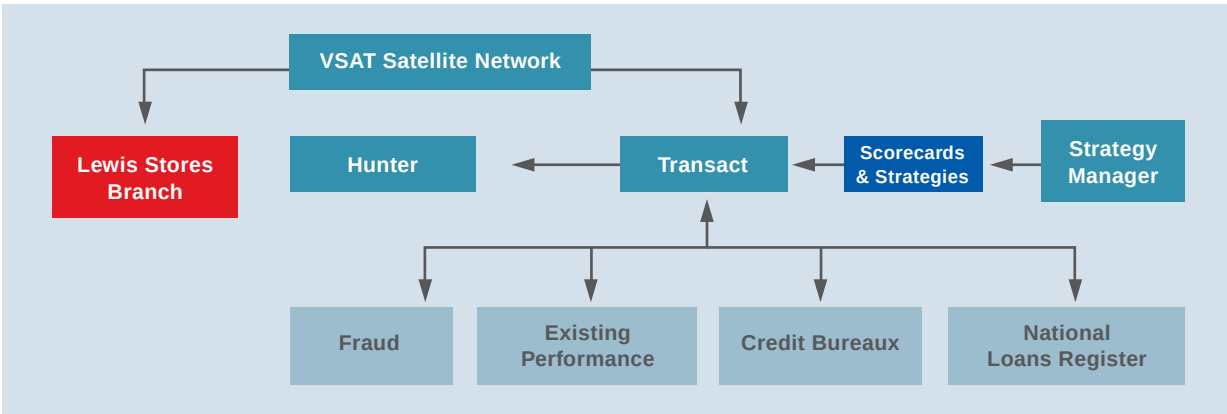
Industry-leading credit approval process

It takes an average of just nine seconds for a decision to be made on a credit application from any Lewis store anywhere in South Africa.

Key features of credit management

		2008	2007
Credit sales as % of total sales	%	66.9	69.3
Net debtors book	Rm	2 938.7	2 530.0
Increase in net debtors book	%	16.2	13.5
Doubtful debt provision	Rm	395.8	377.5
Doubtful debt provision as % of net debtors book	%	13.5	14.9
Debtors costs	Rm	190.4	147.9
Debtors costs as a percentage of net debtors	%	6.5	5.8
Slow-paying and non-performing accounts as a % of net debtors book	%	24.9	23.6
Arrear instalments on slow-paying and non-performing accounts as a percentage of net debtors book	%	19.3	19.0
Arrear instalments on satisfactory paid accounts as a percentage of net debtors book	%	10.6	10.7
Doubtful debt provision coverage on non-performing accounts	%	69.6	81.2
Credit application decline rate	%	22.5	20.1

Diagram 1: Credit Approval Process



Scorecards

There are two types of scorecards in use:

- Application risk scorecard for new customers.
- Behavioural scorecards for existing customers.

Scorecards are developed using information about a selected population to identify common characteristics that explain the payment behaviour of that population. Scorecards are continuously enhanced to take account of shifts in the population. The risk score for a customer determines the probability of that customer becoming delinquent in the future.

Application risk scorecards are used to predict the risk of a potential new customer. The majority of the predictive strength of these scorecards is based on the customer's credit record at the credit bureau, which indicates the applicant's payment record with other credit providers (refer diagram 2).

Lewis has developed a "priority expense model" following research conducted with Lewis customers. A customers' risk score, together with the expense assessment and outstanding debt obligations reflected at the credit bureau, is used to calculate a credit limit for each customer. The risk score and more than 30 policy rules are used to determine the decision for each application for credit with the group.

Behavioural scorecards predict risk for repeat customers. In these scorecards, the majority of the predictive strength comes from the customer's payment behaviour with Lewis Group. Internal payment behaviour tends to be more predictive than bureau credit records as it is based on the customer's actual payment relationship with Lewis. Behavioural scorecards also factor in the payment behaviour of Lewis customers across the entire credit industry. Overall levels of indebtedness are also assessed to ensure that Lewis customers are not over-indebted and that customers re-served with promotional offers can afford the credit (refer diagram 3).

Diagram 2: New Credit Applications

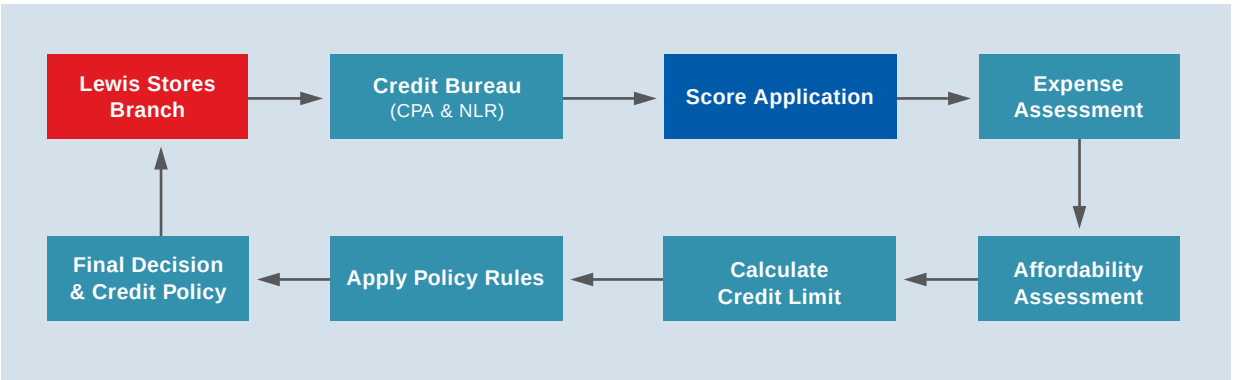
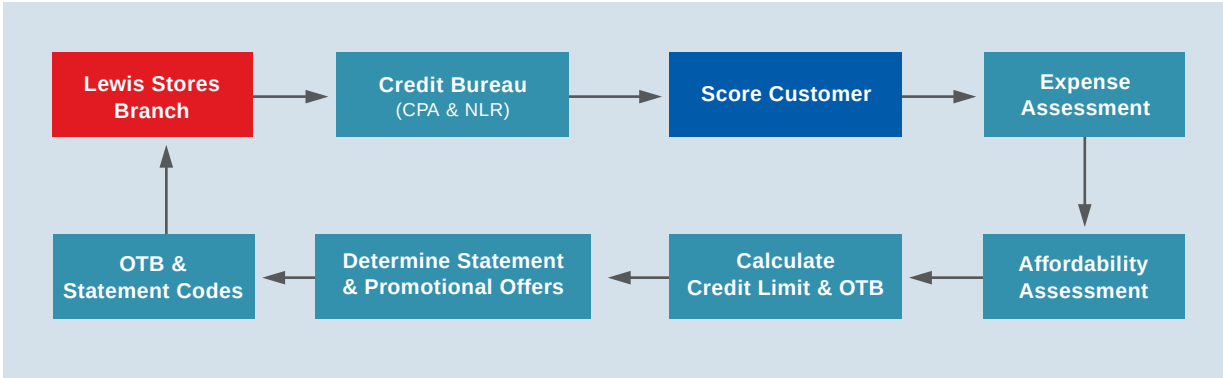


Diagram 3: Repeat Credit Applications



Lewis currently applies 13 risk scorecards, while 69 unique risk segments have been defined for the application of credit policies across the group. The credit policy will determine the credit limit, term and deposit requirement for each customer.

Lewis has recently acquired scorecard development software which will enable the group to enhance the current risk scorecards more frequently and cost effectively. This will also allow the group to continue to refine and differentiate the market segments allowing for new scorecards to be developed for niche segments of the population.

Credit collection

The cash collection and follow-up of defaulting customers is the responsibility of each store, supported by regional and divisional account managers and collectors. This decentralised collection process has the following advantages:

- Our branches are situated where our customers work, shop, commute and live. Customers find it convenient to pay at our branches and this improves the overall collection rate.
- Our branch collection staff have a relationship with our customers which has significant advantages in the collection process.
- With the customer regularly entering the store to pay their accounts, a positive relationship is developed with our sales staff which in the majority of cases, results in re-serve sales opportunities in the future.

We believe this decentralised collection process allows for more efficient collection.

Customer ratings

The Lewis Group operates a payment rating system which assesses the customers payment behaviour. A payment rating is assigned to each customer, based on the payment performance over the lifetime of the account. There are 13 payment ratings. Customers are allocated to one of these 13 payment ratings in accordance with their payment behaviour. The rating system is dynamic with customers being assessed each month and ratings improving or deteriorating in accordance with payments. Payment ratings have been in operation for many years and are integral to the calculation of the doubtful debt provision (impairment provision) under 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.

The 13 payment categories referred to have been summarised into four main grouping of customers and this analysis of the debtors book is presented below:

Debtor payment analysis		Number of customers		Doubtful debt provision %	
		2008	2007	**2008**	2007
Satisfactory paid Customers fully up to date including those who have paid 70% or more of amounts due over the contract period	No. %	**534 286** **75.1%**	542 142 76.4%	**0%**	0%
Slow payers Customers who have paid between 70% and 65% of amounts due over the contract period	No. %	**51 759** **7.3%**	47 959 6.8%	**17%**	19%
Non-performing customers Customers who have paid between 65% and 55% of amounts due over the contract period	No. %	**47 130** **6.6%**	44 463 6.3%	**42%**	50%
Non-performing customers Customers who have paid 55% or less of amounts due over the contract period	No. %	**78 413** **11.0%**	74 654 10.5%	**86%**	100%
		711 588	709 218	**13.5%**	14.9%

Despite the tough economic environment, there has been no significant deterioration in the payment ratings of customers. This is evidenced by the small decrease in customers in the satisfactory paid category when compared to our customer base of approximately 712 000 customers. The lower doubtful debt provision percentage (calculated on the same basis as last year) is due to the write-off of older accounts.

Debtors Analysis post implementation of National Credit Act ("NCA")

The introduction of the National Credit Act enabled the business to extend credit terms for top-rated customers during the year. The condition of these extended term accounts is similar to that of shorter term accounts. A detailed analysis of both extended term accounts and shorter-term business since the implementation of the National Credit Act appears below:

Analysis of business since introduction of NCA		Number of customers	
		NCA 24 months	NCA over 24 months
Satisfactory paid			
Customers fully up to date including those who have paid 70% or more of amounts due over the contract period	No.	196 840	69 139
	%	88.0%	87.5%
Slow payers			
Customers who have paid between 70% and 65% of amounts due over the contract period	No.	8 663	2 442
	%	3.9%	3.1%
Non-performing loans			
Customers who have paid between 65% and 55% of amounts due over the contract period	No.	7 560	2 930
	%	3.4%	3.7%
Non-performing loans			
Customers who have paid 55% or less of amounts due over the contract period	No.	10 736	4 508
	%	4.7%	5.7%
		223 799	79 019

The satisfactory paid percentage for the longer-term business is 87.5% compared to 88.0% for the shorter- term business (i.e. 24 months or shorter). Extending terms to our top-rated customers has had no impact on the condition of the debtors book and afforded the group additional revenue opportunities.

corporate services

Information and communications technology

In line with the group's business model, a balance is maintained between centralised head office systems and decentralised systems to support administrative and decision-making processes at stores.

Most transactions are initiated in the store environment and the system automatically updates on a daily basis via satellite. Both the debtor and inventory databases are located at store and head office levels.

Lewis operates a distributed network that allows branches to operate independently of each other and head office. However, the credit vetting process for new applications requires real time connectivity to the credit bureau, which is achieved through Transact. To prevent downtime, an off-site disaster recovery server for the Transact system is in operation. This disaster recovery site connects to the branch satellite network infrastructure and the credit bureau independently of the live environment. The whole Transact system is replicated at the disaster recovery site on a daily basis and can be activated within minutes of a disaster. A generator has been installed at head office to ensure that key systems are maintained.

Substantial progress has been made in improving the effectiveness and resilience of the technology platform both in stores and in the group's central data centres over the past year, including:

- Strengthening the group's off-site data recovery facility.
- Expanding the self-generating electricity at head office to counteract power outages.
- Rolling out a new telephone system to stores.
- Installing new Microsoft-based terminals in-store to enhance work quality.
- Improving printing facilities to reduce the distribution of pre-printed materials.

Electronic catalogue cubicles were installed in all stores with interactive touch-screen capability to assist customers and allow sales staff to provide better service at the point-of-sale.

Over half of the central systems operating in the group's data centre were upgraded. This will limit downtime on these critical servers and enhance efficiency by reducing the number of servers, despite the ever increasing volume of data.

Both the central credit management and branch systems were upgraded for the implementation of the National Credit Act in June.

Lewis operates on a stable satellite network within South Africa and during the year extended satellite connectivity to the branches in Lesotho, Botswana and Swaziland. The terrestrial network servicing Namibia was also upgraded. These changes have improved systems functionality while reducing the amount of downtime historically experienced in these territories.

Group property and development

	Lewis	Best Electric	Lifestyle Living	Total
Stores at start of financial year	410	79	19	**508**
Opened	11	8	3	**22**
Closed	4	–	1	**5**
Stores at year-end	417	87	21	**525**
Stores relocated	4	–	–	**4**
Stores refurbished	23	–	6	**29**

The group has continued to expand its store base despite the more challenging trading environment experienced in the second half of the year. 22 new stores were opened while 4 stores were relocated to improved trading sites.

Store location is key to trading performance and the three retail chains in the group have distinctive trading formats and store siting strategies:

- Lewis outlets are generally situated in main streets and town centres, with some presence in shopping centres. Eleven new stores were opened.
- Best Electric stores adopt a smaller format with high trading densities, and are generally located in shopping areas with higher footfall.
- Lifestyle Living's stores are still predominantly in shopping centres.

The group's property procurement and development is managed centrally to maximise operational efficiencies. The majority of premises are leased and the group currently occupies 479 rented sites in Southern Africa.

The costs of upgrading and maintenance of stores are controlled through the use of dedicated upgrading teams and contractual relationships with BEE partners.

Security measures are continually being reassessed. All stores are fitted with alarm systems and roller shutters to secure premises in higher risk areas.

Most of the group's stores are equipped with drop safes and security contractors handle cash-in-transit. The impact of crime on the group is well within manageable levels.

Investment in our staff is of paramount importance and drives our training and development programmes. Similarly, our investment in the community where we trade, is not just about goodwill, but about making a difference.

corporate social responsibility

Sharon Röhm: corporate social responsibility manager

"To assist the economic and social progress of marginalised communities through the sponsorship of upliftment projects."

The corporate social responsibility plan is an integral part of the group's overall business strategy. In particular, the group is committed to uplifting the community which we serve. The main objectives of the plan are:

- To continue to transform our employee profile into one that is reflective of the communities with whom we do business.
- To provide training and development to our staff.
- To assist the economic and social progress of marginalised communities through the sponsorship of upliftment projects.
- To support small, medium and micro enterprises through our procurement and enterprise development practices.

Communities

The aim of our social responsibility programme is to assist the economic and social progress of marginalised communities with the sponsorship of upliftment projects. The majority of our support goes toward education and training followed by health and social development. The focus of the programme has been more towards the plight of children in our society.

Handover ceremony of Ethangeni Combined School, Dundee

We have continued to support the building of classrooms and amenities for schools in KwaZulu-Natal though Project Build. Project Build was established in 1977 and aims to improve the quality of life for impoverished communities in KwaZulu-Natal in respect of education and community facilities. The emphasis of our sponsorship will be in the rural areas where there are no facilities and, in fact, many children in the area still attend school under trees or in overcrowded and dilapidated mud huts with no protection from the climate.

Earlier this year, we completed the building of two sanitation facilities at Sicelulwazi Primary School at KwaMashu. We are also sponsoring the building of two classrooms and a sanitation facility at Ifafa Primary School near Umzinto and three classrooms for Ethangeni Combined School near Dundee.

corporate social responsibility continued

Handover ceremony of Ifafa Junior Primary, Umzinto, KwaZulu-Natal

We continued to support the Children of the Dawn organisation, which focuses on caring for HIV/AIDS orphans and vulnerable children throughout South Africa. Lewis is currently sponsoring 45 children and such sponsorship covers their needs such as schooling, nutrition, clothing, hygiene and health. It is our intention to expand this sponsorship to include a further 38 children.

Support has been given to the following:

- Funding for schooling needs and the provision of such amenities as beds, mattresses, furniture and cupboards to 44 boys and girls at the South African Children's Home in Gardens, Cape Town.
- Sponsorship for projects conducted by the Thembalisha Foundation which has as its main objective the alleviation of poverty through education. We have continued to support the projects at the School of Hope and Graceland Pre-school.
- Sponsorship of the Family Reunion Centre. This care centre provides food parcels to pensioners every month and care for homeless people and single mothers. The centre also has a feeding scheme for the children of Amstellhof Primary School. We have agreed to continue this sponsorship for the following financial year.

Our corporate social responsibility programme has been extended to include communities in Botswana, Lesotho, Namibia and Swaziland which we serve through our extensive retail network. Our major sponsorship has been to the SOS Children's Homes in each country where we have provided merchandise items such as fridges, stoves, television sets, furniture, beds and mattresses. We have also provided funding for the general day to day running costs.

Lewis is one of the major sponsors of the Community Chest Twilight Run, an annual event in Cape Town. The proceeds of the thousands of entries to this run contributes to the Community Chest's fund-raising.

Sundry ad hoc assistance is provided to various non-profit organisations in response to requests. In addition, financial assistance and donations of kit are made to sports clubs in previously disadvantaged areas.

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

- The provision of Damelin education bursaries to the value of R1 million per year to club members, thereby assisting previously disadvantaged South Africans to further their education.
- The top three prize winners each month select charities of their choice and donations are made to the selected charities on their behalf.

Transformation

In the Financial Mail/Empowerdex Empowerment survey of April 2008, Lewis Group was placed second in the Retail sector.

The DTI introduced revised codes and we are currently recalibrating systems to be able to measure our rating in terms of the revised standards.

The group continues to measure progress in meeting internal targets for transformation. Regular reports in respect of employment equity, training, procurement and the corporate social responsibility programme are presented bi-annually to the Transformation Committee. The Transformation Committee assesses the progress relative to targets set. To date, we are making good progress, particularly in respect of employment equity.

Employees

Our business success relies on a productive workforce, where sound employee relations are key. We aim to create an environment where loyal people with strong entrepreneurial and work ethic are rewarded and the skills and experience of the staff are retained to ensure the enduring performance of the group.

In particular, Lewis is aware of the costs associated with employee turnover and the cost of acquiring and training new staff. Consequently, priority is given to staff retention, particularly those who show potential to grow within the group. There are a number of benefits to this strategy, one of which is to reward employees who contribute to the success of the group and secondly, to create a culture where employees feel a sense of belonging to the "Lewis family".

We are also committed to ensuring a workplace that is representative of the demographics of South Africa and our customer base. We continually monitor our employee profile to ensure that it is reflective of the communities which we serve. 85% of our staff are from black communities.

We provide for the development of our staff offering an extensive range of training courses for all employees concentrating on the skills set for each of the job categories. It is the responsibility of operational management to continually identify candidates who require further training to enhance their performance and overall skills. During 2008, 2 698 staff members attended training courses including 1 908 previous disadvantaged staff. Particular emphasis was placed on training in respect of the National Credit Act.

Staff with management potential are continually being identified and being given the opportunity to further develop their career within the group. Manager development programmes are in place to take the employee through junior management levels through to senior management roles. In addition, a development pool confirming staff from previous disadvantaged communities, who have been identified as having management potential, are receiving further training and exposure.

A training team working closely with the human resources department travels throughout South Africa providing on-site and off-site training supplementing interactive computer training on product knowledge at the stores.

The group has expanded skills training and product knowledge by means of a weekly television broadcast, known as "Lewis Live", directly to our branches. During the broadcast, employees are exposed to skills training and product knowledge. This contributes to a team culture where the staff understand the requirements of other jobs in the store environment.

We are accredited as a training provider within the Wholesale and Retail Sector Educational and Training Authority.

corporate social responsibility continued

The group provides a number of other benefits:

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

We recognise our employee's rights to associate freely and to bargain collectively and a recognition agreement exists with the South African Commercial, Catering and Allied Workers' Union (SACCAWU). Recognition agreements have also been concluded with unions in Botswana, Lesotho and Swaziland.

HIV/AIDS

Lewis has an HIV/AIDS awareness programme which is integrated into the regular company training programmes available to our 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 HIV/AIDS management programme has been made available to permanent staff and their immediate families. The programme is run by an external service provider who provides the following services:

- Access to post-AIDS exposure counselling through a care centre.
- The applicant is covered for initial medication, free consultations and assistance in locating the nearest clinic for further treatment.

Participation by employees and their families is voluntary and all counselling given is treated as confidential. The group bears the cost of this cover on behalf of all its employees.

This HIV/AIDS management programme has been promoted through all the staff communication channels.

Procurement and enterprise development

A substantial amount of merchandise is procured from suppliers, which are mostly small, medium and micro enterprises and mostly owned by persons from designated groups. During the year, approximately 40% of purchases in the furniture category were bought from Black Economic Empowerment (BEE) suppliers. In addition, 90% of all vehicles purchased were bought from a BEE vehicle dealership and approximately 30% of our rental premises are owned or controlled by previously disadvantaged individuals. Our payment terms are 30 days which support the cash flows of these suppliers. Our Enterprise Development initiatives include supporting small black owned businesses that provide services to our group. Financial assistance is also given to these businesses.

Two classrooms for Ifafa Junior Primary, Umzinto, KwaZulu-Natal

Environment

We recognise that our activities do impact on the environment. The impact is minimised through adopting a strategy of regularly reviewing the group's activities and compliance with relevant legislation.

The main areas of focus are:

- Minimising the usage of electricity and water.
- Wastage disposal companies are contracted to recycle the group's wastage, which relates mainly to consumables such as stationery, paper and plastic.
- The optimisation of fuel and oil consumption is achieved by ensuring that vehicles operate efficiently and the amount of travel for delivery purposes is minimised.

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

Pupils and staff at Ifafa Junior Primary School

corporate governance

Marlene McConnell: company secretary

"Effective corporate governance is consistently practiced throughout the group."

Introduction

The directors endorse the principles of effective corporate governance and accept responsibility for ensuring that it is consistently practiced throughout the group. In discharging this responsibility, the board has ensured that the company complies in all material respects with the requirements of the Code of Corporate Practices and Conduct as set out in the second King Report on Corporate Governance (King II).

Governance developments

The board believes that the corporate governance structure should be appropriate for the size and nature of the group, its overall structure and to be able to monitor the business risks and challenges facing the group. This is an on-going assessment and appropriate adjustments to the governance practices are continuously made in response to changing circumstances.

During the year, the following developments in the governance practices were implemented:

- Formation of an Audit and Risk Committee for the group's insurer, Monarch Insurance Company Limited. While the group's Audit and Risk Committee has hitherto adequately addressed Monarch's issues, it was agreed that a separate audit committee be formed by Monarch with the required set of specialised skills to oversee Monarch's financial reporting, internal control and risk management.
- The composition, functions and responsibilities of audit committees as set out in the Corporate Laws Amendment Act of 2006, have been integrated into the workings and charter of the group's Audit and Risk Committee.
- Successful implementation of the National Credit Act into all the business processes of the group.
- Continuing compliance with legislation and regulations and monitoring of proposed legislation to assess its impact on the business.
- Compliance with JSE Listings requirements.

- Continual review of existing governance practices to ensure its appropriateness to our circumstances and to benchmark against best practice.

Board and board committees

The board

Membership

Non-executive members: D M Nurek (chairman), H Saven, B J van der Ross and Professor F Abrahams

Executive members: A J Smart (chief executive officer), L A Davies (chief financial officer)

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

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

Purpose and function

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

- adoption and oversight of strategic plans;
- matters considered crucial for business success;
- 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 effective regulatory compliance;
- assessing the sustainability of the group as a going concern;
- approving the annual and interim financial statements; and
- ensuring balanced and understandable communication to stakeholders.

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

A self-evaluation of the board's performance is undertaken annually.

Meetings

The board meets four times a year. The charter allows for additional meetings when it is considered necessary.

Meetings are conducted in accordance with formal agendas, ensuring that all substantive matters are properly addressed and monitored. Any director may request additional items be included on the agenda. Meaningful, relevant and complete information is disseminated prior to board meetings to facilitate in-depth discussion.

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

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

Newly appointed directors are taken through an induction programme, outlining their fiduciary responsibilities and the necessary company and industry specific background information.

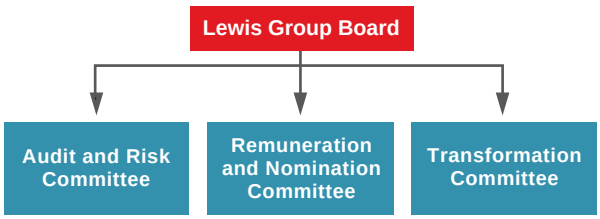
Attendance

	May 2007	Aug 2007	Nov 2007	**Mar 2008**
D M Nurek	✓	✓	✓	✓
H Saven	✓	✓	✓	✓
B J van der Ross	✓	Apologies	✓	✓
Prof F Abrahams	✓	✓	✓	✓
A J Smart	✓	✓	✓	✓
L A Davies	✓	✓	✓	✓

Board committees

The board of directors has delegated specific responsibilities to board committees, each with their own charter and terms of reference. The board committees meet independently and report back through their chairman. Minutes of committee meetings are distributed to the board. The secretary for these committees is the company secretary.

The board structure is illustrated below:



Audit and Risk Committee

Membership

Members: H Saven (chairman), D M Nurek, B J van der Ross.

In terms of its charter, the committee consists of the independent non-executive directors. The directors are financially literate and suitably qualified to perform their role.

Purpose and function

The committee is responsible for:

- approving the internal audit plan and reviewing the activities and findings of the department. Evaluating the performance of the internal audit function;
- reviewing the audit plan of the external auditors, providing guidance as to the extent of services other than audit to be provided. 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 compliance with regulatory requirements;
- assessing the sustainability of the group in terms of economic, environmental and social considerations; and
- reviewing the financial reporting system, evaluating and approving accounting policies and the financial information issued to the stakeholders in terms of International Financial Reporting Standards.

Meetings

The committee meets four times a year. Committee meetings are also attended by the group's chief executive officer, chief operating officer, chief financial officer, the company secretary, the group's internal audit manager and the external auditors, PricewaterhouseCoopers Inc.

The charter and meeting agendas have been aligned with the Corporate Laws Amendment Act of 2006.

Attendance

	May 2007	Aug 2007	Nov 2007	**Mar 2008**
H Saven	✓	✓	✓	✓
D M Nurek	✓	✓	✓	✓
B J van der Ross	✓	Apologies	✓	✓

Remuneration and Nomination Committee

Membership

Members: D.M Nurek (chairman), H Saven, B J van der Ross, Professor F Abrahams

In terms of the charter, all members must be independent non-executive directors.

Purpose and function

The committee is responsible for the following:

- developing a remuneration philosophy;
- ensuring senior executives are fairly rewarded;
- succession planning;
- ensuring the Board has the required mix of skills, experience and other qualities to effectively manage the group; and

- identifying and nominating candidates to fill board vacancies. Before nominating individuals, appropriate reference checks are performed.

Meetings

The committee meets twice a year. At the invitation of the committee, the chief executive officer attends the meetings except when matters relating to his own compensation are under discussion.

The committee reviews and approves the compensation of the executive directors, non-executive directors and senior executives. All awards under the group's share incentive plans are approved by the committee. The committee in its discretion may engage independent and professional advice in reviewing remuneration policies.

Attendance

	Aug 2007	**Mar 2008**
D M Nurek	✓	✓
H Saven	✓	✓
B J van der Ross	Apologies	✓
Professor F Abrahams	✓	✓

Transformation Committee

Membership

Non-executive members: Professor F Abrahams (chairperson), D M Nurek

Executive members: A J Smart (chief executive officer), J Enslin (chief operating officer), D Loudon (general manager: merchandising), J Horn (general manager: human resources)*, S Röhm (corporate social responsibility manager)

* Resigned 31 May 2008

Purpose and function

The committee is responsible for:

- developing and maintaining a transformation strategy;
- to set targets appropriate to the group in terms of the Codes of Good Practice issued by the Department of Trade and Industry ("DTI");
- approve the programme of transformation;
- ensure that an annual evaluation of the group's performance in terms of the DTI's scorecard and a comparison to the targets set by the Committee are made; and
- confirm that legislation has been complied with.

Meetings

The committee meets twice a year. Reports on employment equity, training, procurement and the corporate social responsibility programme are presented by the respective executive members at every meeting. The committee reviews the progress that is being made towards achieving the group's targets in respect of DTI's codes of good practice.

Attendance

	Aug 2007	**Mar 2008**
Professor F Abrahams	✓	✓
D M Nurek	✓	✓
A J Smart	✓	✓
J Enslin	✓	**Apologies**
D Loudon	✓	**Apologies**
J Horn	✓	✓
S Röhm	✓	✓

Monarch Insurance Company Limited

The board

Membership

Executive members: A J Smart (chairman), L A Davies

Non-executive members: D M Nurek*, R L Shaw and R I Sanger

Alternate director: H Saven* (for D M Nurek)

*Appointed 23 July 2007

Monarch Insurance Company Limited is the group's short-term insurer. With due cognisance of this, selection of directors is made based on their knowledge and experience, particularly with respect to short-term insurance, creditability and the contribution they can make to this board.

R L Shaw and R I Sanger provide insurance advisory services to Monarch.

Purpose and function

The board performed the following functions:

- approval and oversight of strategic plans for the insurer within the parameters of the overall strategic direction of the group;
- approval of budgets (component of the group budget);
- monitoring operational performance against approved budgets;
- regular review of underwriting criteria;
- adoption of asset allocation strategies for the investment portfolio, based on recommendations from Sanlam who manage the portfolio on Monarch's behalf;
- review of the performance of the investment portfolio against benchmarks;
- ensuring regulatory compliance, specifically with respect to the Short-term Insurance Act of 1998;
- ensuring effective risk management and internal control;
- assessing director selection, orientation and evaluation;
- approving significant accounting policies; and
- approving the annual financial statements

Meetings

The Monarch board meets four times a year.

Meetings are conducted with a formal agenda, ensuring that all substantive matters are dealt with. Any director may request additional items be included on the agenda. Meaningful, relevant and complete information is disseminated prior to board meetings to facilitate in-depth discussion.

At every meeting, a formal report from Sanlam regarding the investment portfolio is presented and discussed. The report covers the following:

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

The board considers their recommendations. The investment strategy is then formulated for the following quarter and the chief financial officer is then given authority to implement the approved strategy.

Attendance

	Jul 2007	Sep 2007	Nov 2007	**Mar 2008**
A J Smart	Apologies	✓	✓	✓
L A Davies	✓	✓	✓	✓
D M Nurek	✓	✓	✓	✓
R L Shaw	✓	✓	✓	✓
R I Sanger	✓	✓	✓	✓

Audit and Risk Committee

Membership

Members: R L Shaw (chairman), D M Nurek and R I Sanger

The committee was constituted in accordance with section 22 of the Short-term Insurance Act of 1998. Its first meeting was held in September 2007.

Purpose and function

The committee is responsible for:

- reviewing the company audit plan of the external auditor and its context within the group audit plan. Providing guidance as to the extent of non-audit services to be provided;
- ensuring compliance with regulatory requirements, particularly the Short-term Insurance Act of 1998. The scope of the committee's monitoring of compliance with legal and regulatory requirements has been extended to include group compliance with the Financial Advisory and Intermediary Services Act ("FAIS");

- reviewing the financial reporting system, evaluating and approving accounting policies and approving the financial statements of the company; and
- addressing risks specific to the company that have been identified in the group risk management policies.

Internal control review and internal audit work is done in terms of an overall group plan. The group Audit and Risk Committee refers any matter relating to Monarch to this committee for its consideration.

Meetings

The committee meets four times a year. These meetings are attended by the chief executive officer, chief financial officer, the company secretary, the group's internal audit manager and the external auditors, PricewaterhouseCoopers Inc.

Attendance

	Sep 2007	Nov 2007	**Mar 2008**
R L Shaw	✓	✓	✓
D M Nurek	✓	✓	✓
R I Sanger	✓	✓	✓

Other governance structures

Executive Committee

The chief executive officer, Alan Smart is responsible for formulating, implementing and maintaining strategic directions, as well as ensuring that the day-to-day activities are appropriately supervised and controlled.

The responsibility for the implementation of strategy and management control over the activities of the group rests with the Executive Management Committee. The committee is chaired by the chief executive officer and consists of 12 senior members of the executive team which includes the six directors of Lewis Stores (Pty) Ltd.

The Executive Committee meets regularly and is responsible for assisting the chief executive officer in the management of the group, is accountable for the performance of the group and makes policy proposals to the board for consideration and adoption.

Company secretary

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

The appointment and removal of the company secretary is a matter of the board. On 18 March 2008, P B Croucher resigned as company secretary to move into another role within the group and M G McConnell was appointed in his stead.

Internal controls and auditing

Internal Control

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

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

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

functioning of the systems has occurred. The board is of the view that current controls are adequate and effective to mitigate, to an acceptable level, the significant risks faced by the group.

Internal audit

The internal audit department reports to the Audit and Risk Committee and has direct access to the chairman of the Audit and Risk Committee. For day-to-day matters, it reports to the chief financial officer.

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

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

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

External auditors

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

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

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

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

Non-audit services provided by the external auditors are reported to the Audit and Risk Committee on a bi-annual basis.

Compliance and codes of conduct

Legislative compliance

We consider compliance with applicable laws, industry regulations and codes an integral part of conducting business. The group facilitates compliance through analysing statutory and regulatory requirements and ensuring that the implementation thereof is in accordance with the applicable laws and regulations.

The implementation of the National Credit Act ("NCA") at the beginning of June 2007 was successful. All the group's business processes were re-engineered, where appropriate, to comply with the various aspects of the NCA. One of the main implications of the NCA was the affordability criteria which requires credit providers to ensure that customers can afford the credit being offered. Lewis has been applying very similar criteria for a number of years and, therefore, compliance with NCA requirements required little change.

Proposed legislation that may impact the group going forward include the following:

- Consumer Protection Bill
- Companies Bill
- Insurance Law Amendment Bill

Management will monitor the progress of these Bills and make continual assessments of their impact on group compliance.

Behavioural code

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

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

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

Conflict of interest

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

Share dealing

An insider trader policy exists. During closed periods, the directors, officers and defined employees may not deal in the shares of Lewis.

Directors are required to obtain written clearance from the chairman of the board before dealing. If the chairman wishes to deal, he is required to obtain written permission from the chairman of the Audit and Risk Committee.

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

Stakeholder communication

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

risk management

Risk is integral to any business. Risks need to be managed to ensure that the business continues to meet its goals, but in many instances risk also provides opportunities to grow the business.

Risk management is a process of identifying, evaluating, and responding to business-specific, industry and general risks. Due to their involvement in the business operations, executive management is able to identify risks and to assess whether the risk has to be transferred, avoided or managed. This process has been formalised by the Risk Working Group who reports on a biannual basis to the Audit and Risk Committee.

The primary risks to the group have remained unchanged from the previous year and there has been no shift in their significance. These can be broadly categorised as follows:

Credit management

The extension of credit to our customers and subsequent collectability of these debts is influenced by:

- *Social and economic trends*

  Relevant factors include personal debt levels, unemployment levels, food and transport inflation rates and interest rates.

  The group has industry-leading credit-granting systems which assess the creditworthiness of customers and ensures manageable levels of bad debt. Any shift in the payment pattern of our customer base would be rapidly identified and the appropriate action taken.

- *The National Credit Act ("NCA")*

  Our credit-granting process, which has been in place for many years, was similar to the requirements of the National Credit Act and, therefore, the transition to the NCA was very smooth. The store-based collection process ensures that Lewis will continue to interface closely with its customers and is a major advantage when dealing with certain aspects of the NCA.

Human capital

Labour related

Our employees are unionised and as with all collective bargaining, there is a risk of disputes and work stoppages. In the past, Lewis and the unions have reached mutually acceptable settlement.

Key executives

These persons generally have substantial experience and expertise in the furniture retail business and have made significant contributions to the success and growth of the group.

The retention of key executives is the responsibility of the board through its Remuneration and Nomination Committee.

Procurement

The group imports directly 26.6% of total purchases from foreign suppliers. The foreign exchange risk of imports is mitigated through the use of forward currency contracts.

Our supplier base is diversified and we source from both local and foreign suppliers.

The supply chain is continually being assessed to ensure its cost-effectiveness and efficiency in delivering merchandise at the right time and to the right destination.

HIV/AIDS

South Africa has one of the highest HIV/AIDS infection rates in the world. HIV/AIDS management programme is in operation for the group's permanent staff and their immediate families. The cost of the cover is borne by the group. With respect to customers, the impact is indeterminable, but there has been no significant deterioration in the death claims experience of Monarch Insurance Company ("Monarch").

Information technology

The business is dependent on its information technology platforms. Software development and services are outsourced to a third-party provider. The quality of the service is monitored through a service level agreement.

Disaster recovery planning is in place and tested regularly during the year. In addition, a comprehensive business recovery plan exists for the group.

Investments

Monarch holds investments to support the solvency margins and technical reserves required by the Short-term Insurance Act. The fair value of these investments are affected by the economic and investment climate. The board of Monarch regularly assesses investment strategy in conjunction with our investment advisor, Sanlam Asset Management.

five-year review

	2008 Rm	2007 Rm (Normalised)	2006 Rm	2005 Rm	2004 Rm (SA GAAP)
Group Income Statements					
Revenue	**3 596.4**	3 323.5	2 874.5	2 511.2	2 274.7
Cost of sales	**(1 272.1)**	(1 194.0)	(1 020.6)	(885.0)	(919.6)
Operating costs	**(1 393.9)**	(1 269.6)	(1 125.3)	(1 032.7)	(849.5)
Operating profit	**930.4**	859.9	728.6	593.5	505.6
Investment income	**71.7**	42.7	28.9	37.6	34.9
Profit before interest and taxes (EBITA)	**1 002.1**	902.6	757.5	631.1	540.5
Finance costs	**(56.8)**	(12.4)	(12.8)	(42.7)	(141.7)
Net profit before tax	**945.3**	890.2	744.7	588.4	398.8
Taxation	**(303.0)**	(291.9)	(237.6)	(182.4)	(111.5)
Attributable profit	**642.3**	598.3	507.1	406.0	287.3
Headline earnings	**617.9**	594.2	510.4	400.9	287.6
Group Balance Sheets					
Assets					
Non-current	**706.0**	746.9	730.9	608.8	257.4
Property, plant and equipment	**200.6**	182.9	163.2	159.5	115.4
Investments – insurance business	**505.4**	461.1	478.0	400.6	146.2
Deferred tax asset	**–**	102.9	89.7	48.7	–
Other	**–**	–	–	–	(4.2)
Current	**3 101.9**	2 653.0	2 249.1	2 066.9	2 562.5
Investments – insurance business	**159.5**	199.3	111.9	105.2	296.7
Inventories	**230.4**	230.3	212.6	155.8	155.3
Trade and other receivables	**2 615.6**	2 187.7	1 896.5	1 750.6	1 751.7
Taxation	**29.6**	–	–	–	–
Cash and cash equivalents	**66.8**	35.7	28.1	55.3	358.8
Total assets	**3 807.9**	3 399.9	2 980.0	2 675.7	2 819.9
Equity and liabilities					
Capital and reserves	**2 730.0**	2 527.2	2 305.4	2 059.6	1 310.0
Non-current liabilities	**72.1**	93.0	97.7	86.1	747.9
Interest-bearing borrowings	**–**	–	1.0	1.7	683.8
Retirement benefits	**57.7**	67.6	75.8	72.4	36.0
Deferred taxation	**14.4**	25.4	20.9	12.0	28.1
Current liabilities	**1 005.8**	779.7	576.9	530.0	762.0
Trade and other payables	**302.4**	287.7	283.5	225.2	207.4
Current portion of interest-bearing borrowings	**–**	1.0	0.8	7.2	472.2
Short-term borrowings	**703.4**	429.3	132.8	172.0	–
Taxation	**–**	61.7	159.8	125.6	82.4
Total equity and liabilities	**3 807.9**	3 399.9	2 980.0	2 675.7	2 819.9

five-year review continued

	2008 Rm	2007 Rm (Normalised)	2006 Rm	2005 Rm	2004 Rm (SA GAAP)
Group Cash Flow Statements					
Cash generated from operations	**556.2**	591.5	593.2	625.2	508.9
Dividends and interest received	**61.0**	58.7	41.3	46.9	49.5
Interest paid	**(68.2)**	(30.0)	(18.7)	(319.9)	(18.9)
Tax paid	**(290.4)**	(403.2)	(244.4)	(207.7)	(99.2)
Net cash retained from operations	**258.6**	217.0	371.4	144.5	440.3
Cash utilised in investing activities	**(97.3)**	(66.6)	(45.5)	(53.0)	(59.0)
Net effect of financing activities	**(404.3)**	(439.3)	(313.9)	(567.0)	(6.3)
Net cash increase/(decrease) in cash and cash equivalents	**(243.0)**	(288.9)	12.0	(475.5)	375.0

	2008	2007	2006[2]	2005[2]	2004
Ratios and Statistics					
Returns					
Return on average shareholders' equity	**24.4%**	24.8%	23.2%	22.1%	24.8%
After-tax return on average capital employed	**21.4%**	22.5%	22.1%	18.5%	17.0%
After-tax return on average assets managed	**18.9%**	19.0%	18.2%	15.9%	14.4%
Margins					
Gross margin	**32.7%**	34.0%	34.9%	34.5%	33.6%
Operating margin	**25.9%**	25.9%	25.3%	23.6%	22.2%
Productivity					
Number of stores	**525**	508	490	475	465
Revenue per store (R 000's)	**6 850**	6 542	5 866	5 287	4 892
Operating profit per store (R 000's)	**1 772**	1 693	1 487	1 249	1 087
Average number of employees (permanent employees only)	**6 696**	6 310	5 879	5 713	5 571
Revenue per employee (R 000's)	**537**	527	489	440	408
Operating profit per employee (R 000's)	**139**	136	124	104	91
Trading space (sqm)	**220 236**	215 076	210 201	207 595	205 793
Revenue per sqm (R)	**16 330**	15 453	13 675	12 097	11 053
Operating profit per sqm (R)	**4 225**	3 998	3 466	2 859	2 457
Inventory turn (times)	**5.5**	5.2	4.8	5.7	5.1
Credit ratios					
Cash and short-term sales % of total sales	**33.1%**	30.7%	29.9%	30.1%	23.0%
Debtors costs as a % of net debtors	**6.5%**	5.8%	5.2%	4.8%	5.4%
Debtors impairment provision as a % of net debtors	**13.5%**	14.9%	16.5%	18.3%	19.3%
Arrear instalments on satisfactory paid accounts as a % of net debtors	**10.6%**	10.7%	10.5%	11.2%	11.9%
Arrear instalments on slow-paying and non-performing accounts as a % of net debtors	**19.3%**	19.0%	20.6%	23.3%	23.2%
Doubtful debts provision on non-performing accounts	**69.6%**	81.2%	86.4%	87.3%	88.8%
Decline rate %	**22.5%**	20.1%	22.4%	20.5%	22.3%

	2008	2007	2006	2005	2004
Solvency and liquidity					
Financing cover (times)	**17.6**	72.8	59.2	14.8	3.8
Dividend cover	**2.00**	2.25	2.25	3.00	n/a
Gearing ratio (%)	**23.3%**	15.6%	4.6%	6.1%	60.9%
Current ratio (times)	**3.1**	3.4	3.9	3.9	3.4
Share performance					
Earnings per share (cents)	**717.0**	649.9	521.2	406.0	287.3
Headline earnings per share (cents)	**689.9**	645.4	524.6	400.9	287.6
Cash flow per share (cents)	**620.9**	642.5	609.7	625.2	508.9
Net book asset per share (cents)	**3 057.6**	2 774.3	2 425.0	2 059.6	1 310.0
Share price:					
Closing price	**41.90**	68.50	61.60	33.51	n/a
High	**74.70**	75.00	62.97	41.50	n/a
Low	**37.00**	43.00	32.75	28.20	n/a
Price-earnings ratio	**5.8**	10.5	11.8	8.3	n/a
Dividends per share for the financial year (cents)	**323**	266	225	135	n/a
Number of shares in issue (million)	**99.2**	100.0	100.0	100.0	n/a
Volume of shares traded (million)	**110.5**	120.8	156.1	61.8	n/a
Value of shares traded (million)	**6 284.7**	6 859.1	6 386.8	2 139.5	n/a
Market capitalisation (million)	**4 190**	6 850	6 160	3 351	n/a
Number of shareholders	**1 501**	1 776	2 331	2 862	n/a

Explanatory Notes:

1. All ratios are based on figures at the end of the period unless otherwise disclosed.
2. All amounts for the 2004 financial year are in accordance with South African Generally Accepted Accounting Practice ("SA GAAP"). The results and financial position are determined in accordance with International Financial Reporting Standards, but in respect of the 2005 and 2006 financial years, it excludes share-based payments (IFRS 2) arising from share awards and options granted at date of listing.
3. The return on equity for the 2005 financial year has been restated to exclude the effect of the restructuring prior to the listing.
4. The solvency/liquidity ratios for 2004 have been affected by the group structure prior to its listing.

definitions

The definitions below should be read in conjunction with the accounting policies set out in the financial statements on pages 75 to 82.

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.

After-tax return on average assets managed

After-tax return is the profit before interest and taxation less taxation and the attributable tax on finance costs.

The after-tax return on average assets managed is the after tax return as a percentage of the average total assets.

Gross margin

Gross profit as a percentage of 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 70% and 65% 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.

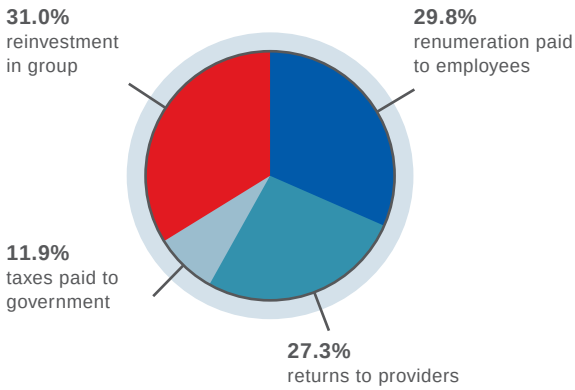
Dividends per share for the financial year

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 are only recorded on payment.

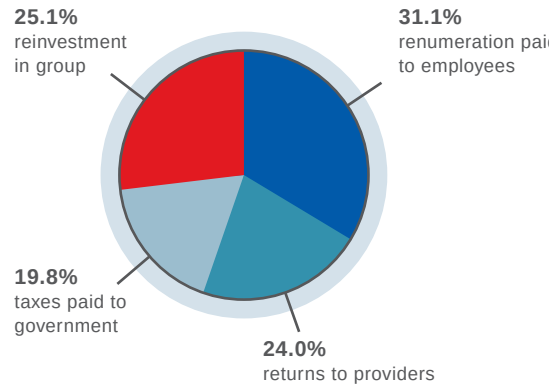
value added statement

	Group			
	2008		2007	
	Rm	**%**	Rm	%
Revenue	**3 596.4**		3 323.5	
Paid to suppliers for goods and services	**1 902.7**		1 760.6	
Value added by operating activities	**1 693.7**		1 562.9	
Distributed as follows:				
Remuneration to employees	**504.2**	**29.8%**	485.6	31.1%
Returns to providers of capital	**463.1**	**27.3%**	375.6	24.0%
To provide lenders with a return on their capital utilised	**68.2**		29.6	
To provide lessors with a return for the use of their premises	**132.2**		114.2	
To provide shareholders with a return on their equity	**262.7**		231.8	
Taxes paid to governments	**202.0**	**11.9%**	309.5	19.8%
Income taxation	**199.1**		305.1	
Regional Service Council Levies	**–**		1.9	
Municipal rates	**2.9**		2.5	
Reinvested in the group	**524.4**	**31.0%**	392.2	25.1%
Depreciation and amortisation	**40.9**		38.9	
Deferred taxation	**103.9**		(13.2)	
Net earnings retained	**379.6**		366.5	
Total wealth distributed	**1 693.7**	**100.0%**	1 562.9	100.0%

distribution of value added 2008



distribution of value added 2007



Lewis' has a proud record of solid growth and has an experienced team to manage the group through economic cycles

directors' responsibility statement

The annual financial statements have been prepared by management and conform with International Financial Reporting Standards ("IFRS") and in accordance with 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 have approved the accounting policies applied and established that reasonable and sound judgements and estimates have been made by management when preparing the financial statements.

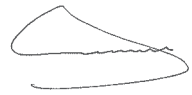
Adequate accounting records and an effective system of internal controls have been maintained to ensure the integrity of the underlying information.

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

The board of directors have reviewed the business of the group together with budget and cash flows for the year to 31 March 2009, as well as the current financial position and have no reason to believe that the group will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the financial statements.

PricewaterhouseCoopers Inc, as external auditors, have examined the financial statements and their unqualified report appears on page 67.

The financial statements of the group and the company for the year ended 31 March 2008, which appear on pages 68 to 115 has been approved by the board of directors and signed on their behalf by:



D M Nurek
Chairman

A J Smart
Chief Executive Officer

Cape Town
19 May 2008

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

19 May 2008

independent auditor's report

TO THE SHAREHOLDERS OF LEWIS GROUP LIMITED

We have audited the annual financial statements and group annual financial statements of Lewis Group Limited and its subsidiaries (together, the group) which comprise the director's report, the balance sheet and the consolidated balance sheet as at 31 March 2008, the income statement and the consolidated income statement, the statement of changes in equity and the consolidated statement of changes in equity, the cash flow statement and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 68 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 accounting 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 risk 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 financial position of the company and of the group as of 31 March 2008, and their financial performance and their 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: B M Deegan
Registered Auditor

Cape Town
19 May 2008

directors' report

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 417 Lewis, 87 Best Electric and 21 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 70 to 115.

Segmental analysis

Segmental information is set out in the segmental report on page 74 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 share capital remained unchanged during the year. During the year, 842 041 shares were cancelled, arising from open market purchases of its own shares by the company.

Treasury shares

The group purchased 9 216 928 (9.2%) of its own shares on the open market through its subsidiary, Lewis Stores (Proprietary) Limited, acting in terms of the general authority granted by shareholders at a general meeting held on 3 August 2007. Refer note 7.1 and 7.2 for more detail.

The Lewis Employee Incentive Scheme Trust effectively holds 654 663 shares, of which 193 030 are unallocated and 461 633 retained to cover share awards granted to executives. Details have been set out in notes 7 and 17.3 to the financial statements.

Dividends

The following dividends have been declared or proposed for the financial year ended 31 March 2008.

	Dividend per share	Date declared	Payable
Interim – declared	144 cents	12 Nov 2007	28 Jan 2008
Final – proposed	179 cents	19 May 2008	28 July 2008
For the year	323 cents		

Notice is hereby given that a final dividend of 179 cents per share in respect of the year ended 31 March 2008 has been declared payable to the holders of ordinary shares recorded in the books of the company on Friday, 25 July 2008. The last day to trade cum dividend will therefore be Friday, 18 July 2008 and Lewis shares will trade ex-dividend from Monday, 21 July 2008. Payment of the dividend will be made on Monday, 28 July 2008. Share certificates may not be dematerialised or rematerialised between Monday, 21 July 2008 and Friday, 25 July 2008, both days inclusive.

Directors

David Nurek, Alan Smart, Hilton Saven, Ben van der Ross and Professor Fatima Abrahams remained directors during the year. Les Davies, group chief financial officer, was appointed as a director with effect 1 April 2007.

In terms of the articles of association of the company, Alan Smart and Hilton Saven will retire and have offered themselves for re-election.

Company secretary

P B Croucher resigned as company secretary on 18 March 2008. M G McConnell was appointed in his stead on 18 March 2008. The address of the company secretary is that of the registered offices as stated on the inside cover.

Directors interests

At 31 March 2008, the directors' beneficial direct and indirect interest in the company's issued shares was as follows:

	2008		2007	
	Direct	**Indirect**	Direct	Indirect
D M Nurek	**–**	**10 000**	–	10 000
H Saven	**–**	**2 940**	–	540
A J Smart	**260 555**	**40 259**	235 428	21 806
L A Davies	**50 000**	**15 530**		
	310 555	**68 729**	235 428	32 346

The following share awards have been made to directors:

A J Smart	146 571
L A Davies	65 220

Full details of the terms and conditions in relation to these options and share awards are set out in note 17.4 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 or its subsidiaries and the directors or their associates, other than remuneration for services rendered to the company as set out in note 17.4 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:

	2008	2007
	Rm	Rm
Profits	**646.8**	602.6
Losses	**(0.1)**	–

Borrowing powers

Borrowings were R703.4 million at 31 March 2008 (2007: R430.3 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.

Special resolutions

At the annual general meeting on 3 August 2007, the following special resolution was passed:

General authority to repurchase company shares

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

balance sheet

at 31 March 2008

	Notes	Group 2008 Rm	Group 2007 Rm
Assets			
Non-current assets			
Property, plant and equipment	3	**200.6**	182.9
Investments – insurance business	4	**505.4**	461.1
Deferred taxation	11	**–**	102.9
		706.0	746.9
Current assets			
Investments – insurance business	4	**159.5**	199.3
Inventories	5	**230.4**	230.3
Trade and other receivables	6	**2 615.6**	2 187.7
Taxation		**29.6**	–
Cash on hand and deposits		**66.8**	35.7
		3 101.9	2 653.0
Total assets		**3 807.9**	3 399.9
Equity and liabilities			
Capital and reserves			
Share capital and premium	7	**149.1**	311.4
Other reserves	8	**128.4**	156.5
Retained earnings	9	**2 452.5**	2 059.3
		2 730.0	2 527.2
Non-current liabilities			
Deferred taxation	11	**14.4**	25.4
Retirement benefits	12	**57.7**	67.6
		72.1	93.0
Current liabilities			
Trade and other payables	13	**302.4**	287.7
Taxation		**–**	61.7
Current portion of interest-bearing borrowings	10	**–**	1.0
Overdrafts and short-term interest-bearing borrowings	14	**703.4**	429.3
		1 005.8	779.7
Total equity and liabilities		**3 807.9**	3 399.9

income statement

for the year ended 31 March 2008

	Notes	Group 2008 Rm	Group 2007 Rm
Revenue		**3 596.4**	3 323.5
Merchandise sales		**1 889.7**	1 808.8
Finance charges earned		**794.9**	776.7
Insurance premiums earned	15	**564.2**	464.7
Ancillary services		**347.6**	273.3
Cost of merchandise sales	16	**(1 272.1)**	(1 194.0)
Operating costs		**(1 393.9)**	(1 269.6)
Employment costs	17	**(504.2)**	(485.6)
Administration and IT		**(167.0)**	(162.3)
Debtor costs		**(190.4)**	(147.9)
Marketing		**(107.1)**	(106.9)
Occupancy costs		**(135.1)**	(116.7)
Transport and travel		**(127.3)**	(109.2)
Depreciation		**(40.9)**	(38.9)
Other operating costs		**(121.9)**	(102.1)
Operating profit	19	**930.4**	859.9
Investment income	20	**71.7**	42.7
Profit before finance costs		**1 002.1**	902.6
Net finance costs		**(56.8)**	(12.4)
Interest paid	21.1	**(68.2)**	(29.6)
Interest received	21.2	**6.5**	4.0
Forward exchange contracts	21.3	**4.9**	13.2
Profit before taxation		**945.3**	890.2
Taxation	22	**(303.0)**	(291.9)
Net profit attributable to ordinary shareholders		**642.3**	598.3
Earnings per share (cents)	23	**717.0**	649.9
Diluted earnings per share (cents)	23	**715.2**	647.1
Dividends paid per share (cents)		**294.0**	253.0
Dividends declared per share (cents)		**323.0**	266.0

statement of changes in equity

for the year ended 31 March 2008

	Notes	Group 2008 Rm	Group 2007 Rm
Share capital and premium	7	**149.1**	311.4
Opening balance		**311.4**	524.9
Cost of own shares acquired:			
Treasury shares		**(112.4)**	(213.5)
Cancelled shares		**(50.0)**	–
Share awards to employees		**0.1**	–
Other reserves	8	**128.4**	156.5
Opening balance		**156.5**	92.0
Fair value adjustments of available-for-sale investments, net of tax		**(27.5)**	54.0
Disposal of available-for-sale investments recognised		**(21.3)**	(1.4)
Share-based payment		**6.7**	4.0
Transfer of share-based payment reserve to retained earnings on vesting		**(0.9)**	(1.7)
Transfer to contingency reserve from retained earnings		**9.0**	4.2
Foreign currency translation reserve		**5.9**	5.4
Retained earnings	9	**2 452.5**	2 059.3
Opening balance		**2 059.3**	1 688.5
Net profit attributable to shareholders		**642.3**	598.3
Profit on sale of own shares		**21.8**	6.8
Transfer of share-based payment reserve from other reserves on vesting		**0.9**	1.7
Cost of share awards to employees		**(0.1)**	–
Transfer to contingency reserve		**(9.0)**	(4.2)
Distribution to shareholders	24	**(262.7)**	(231.8)
Balance at 31 March 2008		**2 730.0**	2 527.2

cash flow statement

for the year ended 31 March 2008

	Notes	Group 2008 Rm	Group 2007 Rm
Cash flow from operating activities			
Cash generated from operations	25.1	**556.2**	591.5
Dividends and interest received		**61.0**	58.7
Finance costs		**(68.2)**	(30.0)
Taxation paid	25.2	**(290.4)**	(403.2)
Cash retained from operating activities		**258.6**	217.0
Cash utilised in investing activities			
Net additions to insurance business investments		**(43.2)**	(11.8)
Acquisition of property, plant and equipment		**(59.8)**	(60.6)
Proceeds on disposal of property, plant and equipment		**5.7**	5.8
Net cash outflow from investing activities		**(97.3)**	(66.6)
Cash effects of financing activities			
Purchase of own shares		**(162.4)**	(213.5)
Dividends paid		**(262.7)**	(231.8)
Proceeds on sale of own shares		**21.8**	6.8
Finance lease liability		**(1.0)**	(0.8)
Net cash outflow from financing activities		**(404.3)**	(439.3)
Net decrease in cash and cash equivalents		**(243.0)**	(288.9)
Cash and cash equivalents at the beginning of the year		**(393.6)**	(104.7)
Cash and cash equivalents at the end of the year	25.3	**(636.6)**	(393.6)

segmental report

for the year ended 31 March 2008

	Group			
Primary segment	Retail Rm	Risk services Rm	Financial services Rm	Total Rm
2008				
Revenue	**2 141.0**	**564.3**	**891.1**	**3 596.4**
Operating profit	**307.3**	**175.4**	**447.7**	**930.4**
Operating margin	**14.4%**	**31.1%**	**50.2%**	**25.9%**
Total assets	**421.7**	**688.1**	**2 698.1**	**3 807.9**
Total current liabilities	**114.7**	**139.9**	**751.2**	**1 005.8**
Capital expenditure	**30.9**	**–**	**28.9**	**59.8**
Depreciation	**22.3**	**–**	**18.6**	**40.9**
2007				
Revenue	2 044.9	464.7	813.9	3 323.5
Operating profit	321.7	183.4	354.8	859.9
Operating margin	15.7%	39.5%	43.6%	25.9%
Total assets	384.8	685.4	2 329.7	3 399.9
Total current liabilities	151.9	125.9	501.9	779.7
Capital expenditure	30.4	–	30.2	60.6
Depreciation	19.8	–	19.1	38.9
Geographical		South Africa Rm	BLNS(*) Rm	Total Rm
2008				
Revenue		**3 218.1**	**378.3**	**3 596.4**
Operating assets		**3 460.5**	**317.8**	**3 778.3**
Capital expenditure		**55.5**	**4.3**	**59.8**
2007				
Revenue		2 982.9	340.6	3 323.5
Operating assets		3 027.6	269.4	3 297.0
Capital expenditure		57.5	3.1	60.6

(*) Botswana, Lesotho, Namibia and Swaziland

Note: Segment revenues, expenses and results include transfers between business segments and between geographical segments. Such transfers are accounted for at arm's length prices.

notes to the annual financial statements

for the year ended 31 March 2008

1. **Basis of preparation**

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which have been recognised at their fair value, and in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act.

The following new or revised IFRSs and interpretations have become applicable to the 2008 financial statements:

IFRS 7 and IAS 1 (revised): Financial Instruments – Capital Disclosures
IFRIC 8: Scope of IFRS 2
IFRIC 9: Reassessment of embedded derivatives
IFRIC 10: Interim Reporting and Impairment

The implementation of these interpretations and amendments to the standards did not have a significant impact on the group's results and cash flows for the year ended 31 March 2008 and the financial position as at 31 March 2008. Disclosure in the notes to the financial statements have been amended in accordance with the requirements of IFRS 7 and the amendment to IAS 1.

The following standards and interpretations, which have been issued but which are not yet effective, have not been applied in these financial statements:

IFRS 2: Share-based Payment – vesting conditions and cancellations
IFRS 3: Business Combinations (revised)
IFRS 8: Operating Segments
IAS 1: Presentation of Financial Statements (revised)
IAS 27: Consolidated and Separate Financial Statements (revised)
IFRIC 11: Group and Treasury Shares
IFRIC 13: Customer Loyalty Programmes
IFRIC 14: The limit on a defined benefit asset and minimum funding requirements

Management have 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.

The preparation of the financial statements necessitates the use of estimates, assumptions and judgements. Estimates are based on management's knowledge and judgement of the current circumstances at the balance sheet date. For further information on critical estimates and judgements, refer to note 2.

1.1 **Basis of consolidation**

The consolidated annual financial statements incorporate the financial statements of the company and its subsidiaries. Subsidiaries are entities in which the group has an interest of more than one half of the voting rights or otherwise has the power to govern the financial or operating policies. The results of the subsidiaries are included from the effective 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.

During a business combination under common control, the excess of the purchase consideration over the net asset value of the acquiree is recognised in equity as a negative common control reserve. This accounting treatment is only applicable to the group financial statements.

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.

1.2 **Goodwill**

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

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

1.3 **Foreign currency translations**

1.3.1 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 group and company's functional and presentation currency.

1.3.2 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.

1.3.3 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.

1.4 **Financial instruments**

1.4.1 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits reduced by amounts in overdraft. These are carried at cost which approximates fair value.

1.4.2 Derivative instruments

Derivative instruments are utilised to hedge exposure to foreign currency and interest rate fluctuations. Derivatives are recognised at fair value on initial recognition. Despite the derivative

instrument providing an effective economic hedge, changes in the fair value of these derivative instruments are recognised immediately in the income statement.

1.4.3 Financial assets

Investments are classified into three classes, based on the purpose for which the investment was acquired. The classification is determined on initial recognition and re-evaluated thereafter on a regular basis.

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) Financial assets acquired with the intention of being held indefinitely are designated as available-for-sale or not classified in another category and are included in non-current assets. Where management has the express intention of holding the financial asset for less than twelve months from the balance sheet date, these are classified as current assets.

(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 any of 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. Both the assets designated as fair value through profit and loss and available-for-sale assets are carried at fair value and valued by reference to quoted bid prices at the close of business on the balance sheet date or, where appropriate, by discounted cash flow.

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.

1.4.4 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 doubtful debts. The provision for doubtful debts is the difference between the asset's carrying amount and the present value of

estimated future cash flows, discounted at the effective interest rate. Changes in the provision are recognised in the income statement.

1.4.5 Financial liabilities

Financial liabilities are recognised at amortised cost, being original debt value less principal payments and amortisations, except for derivatives which are accounted for in accordance with note 1.4.2.

1.4.6 Set-off

Where there is currently a legally enforceable right of set-off between a financial asset and liability, and settlement is intended to take place on a net basis or simultaneously realise the asset or settle the liability, such financial asset and financial liability are offset.

1.5 **Property, plant and equipment**

Property, plant and equipment is carried at cost less accumulated depreciation. The asset's 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. 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 5 years

Land is not depreciated.

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

1.6 **Leased assets**

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

1.7 **Inventories**

Inventory, comprising merchandise held for resale, is valued at the lower of cost or net realisable value. Cost is determined using the weighted average basis, net 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.

1.8 **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.

1.9 **Deferred taxation**

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, on initial recognition, it arises from an asset or liability in a business combination nor where the transaction neither affects 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.

1.10 **Provisions**

A provision is recognised when the group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

1.11 **Insurance business**

1.11.1 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 occurence 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.

1.11.2 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.

1.11.3 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.

1.11.4 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.

1.11.5 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.

1.12 **Segmental information**

The principal segments of the group have been identified on a primary basis by the principal revenue producing activities of the group and on a secondary basis by significant geographical region. The source and nature of business risks are segmented on the same basis. Assets, liabilities, revenues and expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so. The accounting policies are consistently applied in determining the segmental information.

1.13 **Current assets and liabilities**

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

1.14 **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.

1.15 **Employee benefits**

1.15.1 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 project unit credit method.

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

To the extent that actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans exceed the greater of 10% of the

fund's obligation or plan assets at the end of the previous reporting period, the excess is charged or credited to income over the average remaining service lives of employees. Actuarial surpluses are not accounted 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.

1.15.2 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.

1.15.3 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 vesting conditions. Non-market vesting conditions are included in the assumptions about the number of options that are expected to become exercisable. 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.

1.15.4 Provision for leave pay

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

1.16 **Borrowings**

Borrowings are recognised initially at fair value and subsequently at amortised cost. Borrowings are classified as current liabilities unless the group has an unconditional liability for at least 12 months after the balance sheet date.

1.17 **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.

Revenue from the sale of merchandise is recognised on the date of delivery. 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. For contracts entered into prior to the implementation of the National Credit Act ("NCA"), finance charges are recognised on a sum-of-digits basis which closely approximates the effective yield basis. For contracts entered into subsequent to the implementation of the NCA, finance charges are recognised by reference to the daily principal outstanding and the effective interest rate implicit in the agreement. Revenue from maintenance contracts is recognised over a 24-month period to ensure a reasonable profit margin. Initiation fees and directly related costs 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.

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. **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:

2.1 **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 customer's 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.

2.2 **Bad debts**

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

2.3 **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 17.2.

2.4 **Normal and deferred taxation**

Deferred tax assets are recognised on the basis described in note 1.9. 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.

2.5 **Retirement benefits**

The underlying actuarial assumptions are set out in note 12.

2.6 **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.

	Group			
	Land and buildings Rm	Leased Equipment Rm	Vehicles and fixtures Rm	Total Rm
3. **Property, plant and equipment**				
As at 31 March 2008				
Opening net carrying value	**82.8**	**–**	**100.1**	**182.9**
Additions	**2.2**	**–**	**57.6**	**59.8**
Disposals	**–**	**–**	**(1.2)**	**(1.2)**
Depreciation	**(0.8)**	**–**	**(40.1)**	**(40.9)**
Closing net carrying value	**84.2**	**–**	**116.4**	**200.6**
Cost	**88.8**	**14.9**	**336.4**	**440.1**
Accumulated depreciation	**(4.6)**	**(14.9)**	**(220.0)**	**(239.5)**
As at 31 March 2007				
Opening net carrying value	83.5	0.4	79.3	163.2
Additions	–	–	60.6	60.6
Disposals	–	–	(2.0)	(2.0)
Depreciation	(0.7)	(0.4)	(37.8)	(38.9)
Closing net carrying value	82.8	–	100.1	182.9
Cost	86.6	14.9	290.4	391.9
Accumulated depreciation	(3.8)	(14.9)	(190.3)	(209.0)

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

	Group	
	2008 Rm	2007 Rm
4. **Investments – insurance business**		
Carrying value and market value		
Listed investments		
Listed shares – available-for-sale	**192.5**	204.7
Investment policy – available-for-sale	**–**	83.9
Fixed income securities – available-for-sale	**312.9**	256.4
Unlisted Investments		
Money market – at fair value	**159.5**	115.4
	664.9	660.4
Analysed as follows		
Long-term	**505.4**	461.1
Short-term	**159.5**	199.3
	664.9	660.4
Movement for the year		
Beginning of the year	**660.4**	589.9
Net additions to investments	**65.3**	13.4
Movement in fair value transferred to equity	**(60.8)**	57.1
End of the year	**664.9**	660.4
A register of listed investments is available for inspection at the company's registered office. Details of the nature of the investment policy appears in note 26. Regular purchases and sales of financial assets are accounted for on the trade date.		
5. **Inventories**		
Cost of merchandise	**255.1**	252.7
Less: provision for obsolescence	**(24.7)**	(22.4)
	230.4	230.3

	Group	
	2008 Rm	2007 Rm
6. Trade and other receivables		
Instalment sale and loan receivables	**3 539.8**	3 317.0
Provision for unearned finance charges	**(72.1)**	(389.3)
Provision for unearned maintenance income	**(191.6)**	(183.4)
Provision for unearned initiation fees	**(46.9)**	–
Provision for unearned insurance premiums	**(290.5)**	(214.3)
Unearned insurance premiums	**(479.1)**	(346.7)
Less: reinsurer's share of unearned premiums	**188.6**	132.4
Net instalment sale and loan receivables	**2 938.7**	2 530.0
Provision for doubtful debts	**(395.8)**	(377.5)
	2 542.9	2 152.5
Other receivables and prepayments	**72.7**	35.2
	2 615.6	2 187.7
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 (2007: 6 to 24 months).		
7. Share capital and premium		
7.1 **Share capital and premium**		
Share capital	**1.0**	1.0
Share premium	**2 749.0**	2 799.0
Common control reserve	**(2 123.1)**	(2 123.1)
	626.9	676.9
Treasury shares:		
Lewis Stores (Pty) Ltd	**(477.8)**	(365.4)
Lewis Employee Share Incentive Scheme Trust	**–**	(0.1)
Total share capital and premium	**149.1**	311.4

The average market price paid for all the shares repurchased was R52.16, with the lowest price being R41.75 and the highest R65.90.

On listing, Lewis Group Limited ("Lewis Group") acquired the total shareholding of Lewis Stores (Pty) Ltd ("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 was in substance a continuation of the operations of Lewis Stores from the date that the reverse acquisition took place.

Previously, the excess of the purchase consideration over the net asset value of Lewis Stores was reflected as a reduction of share premium. Comparative figures now reflect the reclassification of the commom control reserve as a separate line in equity.

	Group	
	2008 000's	2007 000's
7. **Share capital and premium (continued)**		
7.2 **Number of ordinary shares in issue**		
Number of shares issued	**99 158**	100 000
Treasury shares held by:		
Lewis Stores (Pty) Ltd	**(9 217)**	(7 507)
Lewis Employee Share Incentive Scheme Trust	**(655)**	(1 401)
Number of shares in issue	**89 286**	91 092
	Rm	Rm
8. **Other reserves**		
Comprising:		
Fair value reserve	**93.3**	142.1
Foreign currency translation reserve	**(15.3)**	(21.2)
Share-based payment reserve	**8.4**	2.6
Other	**0.8**	0.8
	87.2	124.3
Statutory insurance contingency reserve	**41.2**	32.2
	128.4	156.5
Detailed movements in the other reserves are disclosed in the statement of changes in equity.		
9. **Retained earnings**		
Comprising:		
Company	**50.3**	3.4
Consolidated subsidiaries	**2 402.2**	2 055.9
	2 452.5	2 059.3
Distribution of all reserves by South African subsidiaries would give rise to STC of R233.1 million (2007: R226.1 million).		
Distribution by certain foreign subsidiaries will give rise to withholding taxes of R26.4 million (2007: R23.9 million).		
No provision for STC and withholding taxes are raised until dividends are declared.		

	Group	
	2008 Rm	2007 Rm
10. **Interest-bearing borrowings**		
Capitalised finance leases secured by computer equipment with a net book value of nil (2007: Rnil million), bearing interest at rates linked to prime, repayable in the next year.	**–**	1.0
Current portion of capitalised finance lease	**–**	(1.0)
	–	–
Total interest-bearing borrowings		
Long-term portion of interest-bearing borrowings	**–**	–
Current portion of interest-bearing borrowings	**–**	1.0
	–	1.0
11. **Deferred taxation**		
Balance at the beginning of the year	**(77.5)**	(68.8)
Movement for the year attributable to:		
Income statement credit	**103.9**	(13.2)
Deferred tax on fair value adjustment in equity	**(12.0)**	4.5
Balance at the end of the year	**14.4**	(77.5)
This balance comprises:		
Capital allowances	**28.4**	40.8
Debtors allowances	**19.5**	(83.3)
Income and expense recognition	**2.2**	1.9
Other provisions	**(35.7)**	(36.9)
Balance at the end of the year	**14.4**	(77.5)
Disclosed as:		
Deferred tax asset	**–**	(102.9)
Deferred tax liability	**14.4**	25.4
	14.4	(77.5)

	Group	
	2008 Rm	2007 Rm
12. **Retirement benefits**		
Amounts recognised in the balance sheet		
Defined benefit retirement plan liability	**16.9**	27.1
Post-retirement healthcare benefits	**40.8**	40.5
	57.7	67.6

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	
Lewis Group Pension Fund	**311**	350
Lewis Stores Retirement Pension Fund	**32**	27
SACCAWU Provident Fund	**583**	593
Lewis Stores Provident Fund	**2 888**	2 863
Lewis Stores Namibia Provident Fund	**118**	100

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 2008.

	2008 Rm	2007 Rm
Amounts recognised in the balance sheet		
Present value of obligations	**345.8**	303.2
Fair value of plan assets	**(362.1)**	(305.6)
	(16.3)	(2.4)
Unrecognised actuarial gains	**33.2**	29.5
Defined benefit retirement plan liability	**16.9**	27.1

	Group	
	2008 Rm	2007 Rm
12. **Retirement benefits (continued)**		
Amounts recognised in the income statement		
Current service cost	**11.1**	13.3
Interest cost	**25.5**	19.9
Expected return on plan assets	**(30.6)**	(22.5)
Net actuarial losses recognised in the year	**1.6**	–
Total included in staff costs	**7.6**	10.7
Movement in retirement benefit liability		
Present value at the beginning of the year	**27.1**	34.6
Income statement charge	**7.6**	10.7
Contributions paid during the year	**(17.8)**	(18.2)
Present value at the end of the year	**16.9**	27.1
Present value of defined benefit obligations		
Beginning of year	**303.2**	269.9
Current service cost	**11.1**	13.3
Interest cost	**25.5**	19.9
Employee contributions	**1.8**	1.9
Benefit payments	**(18.1)**	(24.6)
Actuarial loss	**22.3**	22.8
End of year	**345.8**	303.2
Fair value of defined benefit plan assets		
Beginning of year	**305.6**	252.2
Employee contributions	**1.8**	1.9
Employer contributions	**17.8**	18.2
Expected return	**30.6**	22.5
Benefit payments	**(18.1)**	(24.6)
Actuarial gain	**24.4**	35.4
End of year	**362.1**	305.6

	Group	
	2008 Rm	2007 Rm
12. **Retirement Benefits (continued)**		
Principal actuarial assumptions used were as follows:		
Discount rate	**9.50%**	8.50%
Expected return on plan assets	**10.00%**	10.00%
Inflation rate	**6.50%**	5.25%
Future salary increases	**7.75%**	6.25%
Future pension increases	**6.50%**	5.25%
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	**12.6 years**	15.9 years
Female	**14.0 years**	19.8 years
Actual return on plan assets	**18.2%**	20.8%
The employer's future contribution is set on an annual basis in consultation with the fund's actuary.		
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	**17.5**	16.3
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 2008 by a qualified actuary in accordance with the requirements of IAS 19. The group has a commitment to meet these unfunded benefits.		
Amounts recognised in the income statement		
Current service cost	**0.9**	0.8
Interest cost	**2.9**	2.8
Actuarial gain	**(1.6)**	(2.4)
Income statement charge	**2.2**	1.2
Movement in post-retirement healthcare liability		
Present value of liability at the beginning of the year	**40.5**	41.2
Charged to income statement	**2.2**	1.2
Employer benefit payments	**(1.9)**	(1.9)
Post-retirement healthcare benefits liability	**40.8**	40.5

	Group	
	2008 Rm	2007 Rm
12. **Retirement benefits (continued)**		
Present value of post-retirement healthcare obligations		
Beginning of year	**40.5**	41.2
Current service cost	**0.9**	0.8
Interest cost	**2.9**	2.8
Benefit payments	**(1.9)**	(1.9)
Actuarial gain	**(1.6)**	(2.4)
End of year	**40.8**	40.5
Principal actuarial assumptions used were as follows:		
Healthcare inflation rate	**5.50%**	4.75%
CPI inflation	**5.50%**	4.75%
Discount rate	**8.75%**	7.75%
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	**5.6**	(4.6)
	Obligation	**Experience adjustments gain/(loss)**
Trends		
The trends of the present value of the obligation and experience adjustments are as follows:		
2008	**40.8**	0.2
2007	**40.5**	2.4
2006	**41.2**	4.9
2005	**34.7**	(2.7)
2004	**30.8**	2.0
2003	**29.5**	

notes to the annual financial statements

for the year ended 31 March 2008 continued

	Group	
	2008 Rm	2007 Rm
13. **Trade and other payables**		
Trade payables	**59.6**	91.6
Accruals and other payables	**107.3**	94.0
Due to reinsurers	**102.7**	76.1
Insurance provisions	**32.8**	26.0
	302.4	287.7
14. **Overdrafts and short-term interest-bearing borrowings**		
These borrowings are unsecured. The average closing interest rate on these borrowings was 12.76% (2007: 9.25%)	**703.4**	429.3
	703.4	429.3
15. **Insurance premiums earned**		
Gross insurance premiums	**615.3**	495.4
Reinsurance commission	**203.4**	157.9
Reinsurance premiums	**(254.5)**	(188.6)
	564.2	464.7
16. **Cost of merchandise sales**		
Purchases	**1 272.2**	1 211.7
Movement in inventory	**(0.1)**	(17.7)
Cost of merchandise sales	**1 272.1**	1 194.0
Merchandise gross profit	**617.6**	614.8
17. **Directors and employees**		
17.1 **Employment costs**		
Salaries, wages, commissions and bonuses	**466.3**	449.3
Retirement benefit costs	**27.3**	28.2
Share-based payments	**6.7**	4.0
Other employment costs	**3.9**	4.1
	504.2	485.6
17.2 **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.		

	Group	
	2008 Rm	2007 Rm
17. Directors and employees (continued)		
17.2 Share-based payments (continued)		
Value of services provided:		
In respect of share awards and options granted subsequent to date of listing (refer note 17.3)	**6.7**	4.0
	R	R
Significant assumptions used were:		
Weighted average share price	**56.40**	46.59
Weighted average exercise price (for options only)	**n/a**	n/a
Weighted average expected volatility	**42.6%**	38.3%
Weighted average expected dividend yield	**4.4%**	4.9%
Weighted average risk-free rate (bond yield curve at date of grant)	**8.7%**	8.6%

The volatilities for the options granted after the date of the listing were based on the volatility of Lewis' share price from the date of listing to the date of granting the share awards and options.

17.3 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 Executive Share Option Scheme	No. of shares and options	
Share options are granted to selected executives. The exercise price of the options is the average market price for the last three days, including the date of the grant or, in respect of options granted at date of listing, the listing price of the group's shares. Options vest between three and five years and must be exercised within ten years after been granted. In terms of the scheme's rules, the options vest immediately, should there be a change in control.		
Beginning of year	**662 416**	841 271
Granted	**–**	–
Forfeited	**–**	(89 432)
Vested and exercised by payment of consideration	**(662 416)**	(89 423)
End of year	**–**	662 416
	R	R
Average exercise price of outstanding options	**n/a**	28.00

	Group	
	2008	2007
	No. of shares/options	
17. **Directors and employees (continued)**		
17.3 **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.		
Beginning of year	**185 639**	–
Granted	**184 270**	205 400
Forfeited	**(52 648)**	(19 761)
Vested	**(22 949)**	–
End of year	**294 312**	185 639
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	**89 322**	–
Granted	**88 179**	111 329
Forfeited	**(3 393)**	(14 672)
Vested	**(6 787)**	(7 335)
End of year	**167 321**	89 322
Invested shares paid for through the investment of executives' net bonuses amounted to 106 498 shares (2007: 53 592 shares). These shares are held by the Trust on the executives' behalf.		

	Group	
	2008	2007
	R	R
17. **Directors and employees (continued)**		
17.4 **Directors' emoluments**		
Non-executive directors – fees as directors		
D M Nurek	**495 000**	440 000
H Saven	**341 000**	310 000
B van der Ross	**253 000**	230 000
F Abrahams	**253 000**	210 000
	1 342 000	1 190 000
Executive director – A J Smart (paid by subsidiary)		
Salary	**2 240 000**	2 000 000
Bonuses	**2 000 000**	1 690 000
Contributions to pension scheme	**358 400**	320 000
Contribution to medical aid	**42 000**	37 362
Other material benefits	**158 400**	158 400
Gains on options	**4 799 673**	–
	9 598 473	4 205 762
Executive director – L A Davies (paid by subsidiary)		
Salary	**1 100 000**	n/a
Bonuses	**900 000**	n/a
Contributions to pension scheme	**176 000**	n/a
Contribution to medical aid	**50 475**	n/a
Other material benefits	**161 520**	n/a
Gains on options	**1 094 652**	n/a
	3 482 647	n/a
Gains on options – executive directors		**2008**
A J Smart		
Options exercised		**219 428**
Offer date		**4 October 2004**
Date exercised		**25 May 2005**
Date of release from undertakings not to dispose of shares		**12 November 2007**
Exercise price (R)		**28.00**
Exercise cost (R)		**6 143 984**
Sale proceeds/market value of shares transferred (R)		**10 943 657**
Gain		**4 799 673**
L A Davies		
Options exercised		**50 000**
Offer date		**4 October 2004**
Date exercised		**26 May 2005**
Date of release from undertakings not to dispose of shares		**12 November 2007**
Exercise price (R)		**28.00**
Exercise cost (R)		**1 400 000**
Sale proceeds (R)		**2 494 652**
Gain		**1 094 652**

	Group	
	2008	2007
	No. of shares/options	
17. **Directors and employees (continued)**		
17.4 **Directors' emoluments (continued)**		
Outstanding share awards and options – executive directors		
Share options awarded under the Lewis Executive Share Option Scheme vested as a consequence of the disposal of its controlling interest by GUS in the prior year. The exercise price of these options is R28.00. In terms of a written undertaking, the directors agreed not to dispose of any shares they may become entitled to under these awards prior to 1 October 2007.		
A J Smart	**–**	219 428
L A Davies	**–**	n/a
Share awards under Lewis Executive Performance Scheme granted (refer note 17.3):		
Granted on 30 June 2006:		
A J Smart	**44 753**	44 573
L A Davies	**22 287**	n/a
Granted on 11 June 2007:		
A J Smart	**34 718**	
L A Davies	**17 049**	
Matching share options under Lewis Co-investment Scheme:		
Granted on 30 June 2006:		
A J Smart	**36 344**	36 344
L A Davies	**12 044**	n/a
Granted on 19 June 2007:		
A J Smart	**30 756**	
L A Davies	**13 840**	
The Trust holds 55 789 shares (2007: 21 806 shares) on their behalf by virtue of the investment of their bonuses into the scheme.		
	2008	2007
	Rm	Rm
17.5 **Remuneration of Key Executives**		
Salary	**7.3**	7.7
Bonus	**6.3**	5.7
Termination benefits	**–**	1.6
Retirement and medical contributions	**1.5**	1.5
Other benefits	**0.7**	0.6
	15.8	17.1

Key executives comprise the directors of Lewis Stores (Pty) Ltd, the main operating subsidiary.

	Group	
	2008 Rm	2007 Rm
18. **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	**90.4**	78.1
Two to five years	**208.7**	208.3
Over five years	**–**	1.2
	299.1	287.6
Payments on a straight-line basis:		
Within one year	**92.0**	81.9
Two to five years	**193.7**	196.3
Over five years	**0.1**	1.0
	285.8	279.2
19. **Operating profit is stated after**		
Initiation and service fees on accounts receivable	**95.7**	36.7
Surplus on disposal of property, plant and equipment	**4.5**	3.8
Depreciation		
Owned assets	**40.9**	38.5
Leased assets	**–**	0.4
	40.9	38.9
Fees payable:		
Investment management fee – insurance investments	**1.8**	1.6
Outsourcing of IT function	**28.7**	27.7
	30.5	29.3
Operating lease payments on a cash flow basis	**105.9**	92.6
Lease adjustment	**4.9**	2.1
Operating leases on a straight-line basis	**110.8**	94.7
Auditors' remuneration		
Audit fees – current year	**1.4**	1.0
– prior year underprovision	**0.2**	0.1
Other services	**0.3**	0.6
	1.9	1.7

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for the year ended 31 March 2008 continued

	Group	
	2008 Rm	2007 Rm
20. **Investment income**		
Interest – insurance business	**42.3**	35.5
Dividends from listed investments – insurance business	**7.3**	5.6
Realised profit on disposal of insurance investments	**22.1**	1.6
	71.7	42.7
21. **Net finance costs**		
21.1 **Interest paid**		
Bank loans and overdrafts	**68.1**	26.9
Other	**0.1**	2.7
	68.2	29.6
21.2 **Interest received**		
Bank	**(5.7)**	(2.7)
Other	**(0.8)**	(1.3)
	(6.5)	(4.0)
21.3 **Forward exchange contracts**		
Realised	**1.0**	(13.6)
Unrealised	**(5.9)**	0.4
	(4.9)	(13.2)
21.4 **Net finance costs**	**56.8**	12.4
22. **Taxation**		
22.1 **Taxation charge**		
South Africa	**285.6**	275.2
Foreign	**17.4**	16.7
Taxation per income statement	**303.0**	291.9
Comprising:		
Normal taxation		
Current year	**168.0**	270.3
Prior year	**0.5**	4.9
Deferred taxation		
Current year	**104.2**	(9.2)
Prior year	**(0.2)**	(4.0)
Rate change	**(0.1)**	–
Secondary Tax on Companies	**30.6**	29.9
Taxation per income statement	**303.0**	291.9

	Group	
	2008 Rm	2007 Rm
22. Taxation (continued)		
22.2 The rate of taxation on profit is reconciled as follows:		
Profit before taxation	**945.3**	890.2
Taxation calculated at a tax rate of 29% (2007: 29%)	**274.1**	258.2
Disallowed expenditure/(exempt income)	**(3.3)**	2.9
Secondary Tax on Companies	**30.6**	29.9
Prior years	**0.3**	0.9
Differing tax rates in foreign countries	**1.4**	–
Rate change	**(0.1)**	–
Taxation per income statement	**303.0**	291.9
Effective taxation rate	**32.1%**	32.8%
23. Earnings per share		
23.1 Weighted average number of shares	**000's**	000's
Weighted average shares for earnings and headline earnings per share	**89 583**	92 062
Dilution resulting from share awards and options outstanding	**220**	396
Weighted average shares for diluted earnings and headline earnings per share	**89 803**	92 458
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.		
23.2 Headline earnings	**Rm**	Rm
Attributable earnings	**642.3**	598.3
Profit on disposal of property, plant and equipment	**(4.5)**	(3.8)
Profit on disposal of available-for-sale investments	**(22.1)**	(1.6)
Taxation	**2.2**	1.3
Headline earnings	**617.9**	594.2

	Group	
	2008 Cents	2007 Cents
23. Earnings per share (continued)		
23.3 Earnings per share		
Earnings per share	**717.0**	649.9
Fully diluted earnings per share	**715.2**	647.1
23.4 Headline earnings per share		
Headline earnings per share	**689.8**	645.4
Fully diluted headline earnings per share	**688.1**	642.7
	Rm	Rm
24. Dividends paid		
Dividend No.4 declared on 22 May 2006 and paid on 24 July 2006		137.0
Dividend No.5 declared on 13 November 2006 and paid on 29 January 2007		116.0
Dividend No.6 declared on 21 May 2007 and paid on 23 July 2007	**150.0**	
Dividend No.7 declared on 12 November 2007 and paid on 28 January 2008	**142.8**	
Dividends received on treasury shares:		
Lewis Stores (Pty) Ltd	**(27.1)**	(17.3)
Lewis Employee Share Incentive Scheme Trust	**(3.0)**	(3.9)
	262.7	231.8
25. Notes to the cash flow statements		
25.1 Cash generated from operations		
Operating profit	**930.4**	859.9
Adjusted for:		
Share-based payments	**6.7**	4.0
Depreciation	**40.9**	38.9
Surplus on disposal of property. plant and equipment	**(4.5)**	(3.8)
Movement in provision for doubtful debts	**18.3**	9.5
Movement in retirement benefits provision	**(9.9)**	(8.2)
Movement in other provisions	**14.0**	11.1
Changes in working capital:		
Increase in inventories	**(1.9)**	(20.1)
Increase in trade and other receivables	**(440.3)**	(295.3)
Increase/(Decrease) in trade and other payables	**2.5**	(4.5)
	556.2	591.5
25.2 Taxation paid		
Amount owing at the beginning of the year	**(61.7)**	(159.8)
Amount charged to the income statement	**(303.0)**	(291.9)
Adjustment for deferred taxation	**103.9**	(13.2)
Amount owing at the end of the year	**(29.6)**	61.7
	(290.4)	(403.2)
25.3 Cash and cash equivalents		
Cash deposits and cash on hand	**66.8**	35.7
Overdrafts and short-term interest-bearing borrowings	**(703.4)**	(429.3)
Cash and cash equivalents	**(636.6)**	(393.6)

26. 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 bi-annual basis.

The RWG 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.

26.1 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.
  - for existing customers, behaviourial 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 developed its own priority expense model based on surveys conducted with customers.
- 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.

26. **Financial risk management (continued)**

26.1 **Credit risk (continued)**

i) Accounts receivable (continued)

The credit granting systems enables 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.

The group manages its risk effectively by assessing the borrower's ability to service the proposed monthly instalment. However, collateral exists in that ownership 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 doubtful debt 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	
	2008 Rm	2007 Rm
The total net receivable balance can be analysed as follows:		
Receivables satisfactory paid	**2 207.0**	1 933.0
Slow-paying and non-performing receivables which have been impaired	**731.7**	597.0
	2 938.7	2 530.0

The payment ratings categorise individual customers into 13 distinct categories and have been summarised into 4 main groupings:

		No. of customers		Doubtful debt provision %	
		2008	2007	**2008**	2007
Satisfactory paid: Customers fully up to date including those who have paid 70% or more of amounts due over the contract period	No. %	**534 286** **75.1%**	542 142 76.4%	**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. %	**51 759** **7.3%**	47 959 6.8%	**17%**	19%
Non-performing customers Customers who have paid 55% to 65% of amounts due over the period of the contract	No. %	**47 130** **6.6%**	44 463 6.3%	**42%**	50%
Non-performing customers Customers who have paid 55% or less of amounts due over the period of the contract	No. %	**78 413** **11.0%**	74 654 10.5%	**86%**	100%
Total		**711 588**	709 218	**13.5%**	14.9%

26. Financial risk management (continued)

26.1 Credit risk (continued)

i) Accounts receivable (continued)

The ageing of satisfactory paid receivables past due but not impaired as a percentage of satisfactory paid receivables is as follows:

	Group	
	2008	2007
1 instalment in arrear	**4.9%**	5.2%
2 instalments in arrear	**3.1%**	3.1%
3 instalments in arrear	**2.1%**	2.0%
4 instalments in arrear	**1.5%**	1.4%
4 or more instalments in arrear	**2.5%**	2.4%
	14.1%	14.1%

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 R16.7 million (2007: R14.4 million).

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

26.2 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
- interest rate risk: manage short-term volatility

i) Foreign exchange risk management

Foreign exchange risk is present in respect of imports of merchandise, the net investment in Botswana and the linked policy investment which matured during the year.

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.

26. **Financial risk management (continued)**

26.2 **Market risk (continued)**

i) Foreign exchange risk management (continued)

During the year, 26.6% (2007: 24.6%) of the purchases were in foreign denominated currencies. Below is a summary of the amounts payable under forward contracts:

	Term	Rate	Foreign currency FC 'm	Rand equivalent R'm	Fair value (gain)/loss R'm
2008					
US dollar	Less than 3 months	Rates vary from R6.80 to R8.25	**9.6**	**70.0**	**(5.9)**
2007					
US dollar	Less than 4 months	Rates vary from R7.13 to R7.45	7.9	57.4	0.4

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%
2008				
Effect on (profit)/loss	**5.4**	**2.7**	**(2.7)**	**(5.4)**
(Increase)/Decrease in equity	**5.4**	**2.7**	**(2.7)**	**(5.4)**
2007				
Effect on (profit)/loss	4.0	2.0	(2.0)	(4.0)
(Increase)/Decrease in equity	4.0	2.0	(2.0)	(4.0)

Net investment in foreign entities

The currency exposure is limited to the net investment in Botswana of R84.8 million (2007: R95.1 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%
2008				
(Increase)/Decrease in equity	**9.2**	**4.6**	**(4.6)**	**(9.2)**
2007				
(Increase)/Decrease in equity	8.3	4.1	(4.1)	(8.3)

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

26. **Financial risk management (continued)**

26.2 **Market risk (continued)**

i) Foreign exchange risk management (continued)

Linked policy investment

Included in 2007 was a linked investment policy with Sanlam Life Insurance Limited. The underlying value of the policy was determined in US dollars with reference to the original investment and a growth in a basket of international indices. This policy matured during the current year.

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
- 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
2008		
Effect on (profit)/loss	2.8	(2.8)
(Increase)/Decrease in equity	2.8	(2.8)
2007		
Effect on (profit)/loss	1.7	(1.7)
(Increase)/Decrease in equity	1.7	(1.7)

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. In the 2007 financial year, the group entered into a zero premium interest rate collar with the counterparty being a high-quality financial institution. The value of borrowings hedged and the fair value of these contracts as at 31 March 2008 are as follows:

	Notional amount Rm	Maturity date	Fair value (Rm) **2008**	2007
Zero premium interest rate collars with the cap and floor rates referenced to the 3-month JIBAR rate:				
– commencing on 30 March 2007	150	31 Mar 2008	**–**	(0.1)
– commencing on 31 March 2008	100	30 Mar 2009	**0.6**	(0.1)
			0.6	(0.2)

26. **Financial risk management (continued)**

26.2 **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.

Interest rate profile

The interest rate profile of financial instruments are as follows:

	Term of investment	Average closing effective interest rate %	Floating or fixed	Carrying value Rm
2008				
Assets				
Gross instalment sale and loan receivables	**Up to 3 years**	**30.8%**	**Fixed**	**3 539.8**
Fixed income securities	**Varies**	**9.4%**	**Fixed**	**312.9**
Liabilities				
Overdrafts and short-term borrowings	**Varies (refer note 14)**	**12.8%**	**Floating**	**703.4**
2007				
Assets				
Gross instalment sale receivables	Up to 2 years	29.7%	Fixed	3 317.0
Fixed income securities	Varies	8.0%	Fixed	256.4
Liabilities				
Finance leases	3 years	9.0%	Floating	1.0
Overdrafts and short-term borrowings	Varies (refer note 14)	9.3%	Floating	429.3

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 (Pty) Ltd ("Sanlam") on Monarch's behalf.

The overall management objectives of the portfolio is:

– preservation of capital over the long term
– managing market risk over the short to medium term
– ensure the portfolio is adequately diversified

26. Financial risk management (continued)

26.2 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
- 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 is 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:

	2008	2007
Modified duration of Monarch's fixed income portfolio	**5.1**	4.9
Modified duration of the JSE All Bond index	**5.1**	5.2

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	**22.5%**	15.1%
Financials	**20.3%**	26.2%
Industrial	**57.2%**	58.7%
Beta of portfolio relative to JSE Index	**0.88**	0.89
Beta of portfolio relative to JSE Index, excluding resources	**1.02**	1.05

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

26.3 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.

26. **Financial risk management (continued)**

26.3 **Liquidity risk (continued)**

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

	2008 Rm	2007 Rm
Total banking facilities	**1 000.0**	900.0
Less: drawn portion of facility	**(703.4)**	(429.3)
Plus: cash on hand	**66.8**	35.7
Available cash resources and facilities	**363.4**	506.4

An additional R200 million facility has been negotiated in principle, subject to certain conditions precedent, which will be fulfilled in the new financial year.

27. **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 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 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 significant insurance business other than with the group's customers.

	Group	
	2008 Rm	2007 Rm
27. **Insurance risk (continued)**		
Movement in provisions:		
(i) Unearned premium reserve		
Opening balance	**214.3**	184.8
Movement during year	**76.2**	29.5
Closing balance	**290.5**	214.3
Comprising:		
Unearned premiums	**479.1**	346.7
Less: reinsurers' share of provision	**(188.6)**	(132.4)
Net balance	**290.5**	214.3
(ii) Insurance provisions		
Opening balance	**26.0**	23.2
Movement during year	**6.8**	2.8
Closing balance	**32.8**	26.0

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.

	Held-to-maturity	Amortised cost	Loans and receivables	Available-for-sale	Fair value through profit and loss	Total
28. **Financial instruments**						
i) **Categories**						
Assets						
2008						
Investments – insurance business	**159.5**			**505.4**		**664.9**
Trade and other receivables			**2 615.6**			**2 615.6**
Cash on hand and on deposit					**66.8**	**66.8**
2007						
Investments – insurance business	115.4			545.0		660.4
Trade and other receivables			2 187.7			2 187.7
Cash on hand and on deposit					35.7	35.7
Liabilities						
2008						
Trade and other payables					**166.9**	**166.9**
Borrowings		**703.4**				**703.4**
2007						
Trade and other payables					185.6	185.6
Borrowings		430.3				430.3

ii) **Maturity profile**

The maturity profiles of financial instruments at 31 March 2008 are as follows:

	Average closing rate of interest %	0 – 12 months	2 – 5 years	>5 years	Total
Assets					
Available-for-sale insurance investments			**312.9**	**192.5**	**505.4**
Investments at fair value through profit and loss	**11.3%**	**159.5**			**159.5**
Trade and other receivables*	**30.8%**	**2 615.6**			**2 615.6**
Cash on hand and deposits	**10.4%**	**66.8**			**66.8**
Liabilities					
Bank overdrafts and short-term borrowings	**12.80%**	**(703.4)**			**(703.4)**
Trade and other payables**		**(166.9)**			**(166.9)**
		1 971.6	**312.9**	**192.5**	**2 477.0**

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

** Trade and other payables reflect only financial liabilities, namely trade payables, accruals and other payables.

28. **Financial instruments (continued)**

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.

The carrying value of trade receivables and trade and other payables are assumed to approximate their fair values.

29. **Capital risk management**

The group's objectives when managing capital are to:

- safeguard the group's ability to continue as a going concern
- to provide returns for shareholders
- to provide benefits for other stakeholders
- 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 2008 financial year, the strategy was to maintain the gearing between 20% and 30%, which in the current credit conditions is considered to be prudent. The gearing rates at 31 March 2008 and 31 March 2007 were as follows:

	Group	
	2008 Rm	2007 Rm
Interest-bearing borrowings	**703.4**	429.3
Less: cash and cash equivalents	**(66.8)**	(35.7)
Net debt	**636.6**	393.6
Shareholders' equity	**2 730.0**	2 527.2
Gearing ratio	**23.3%**	15.6%
30. **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	**8.1**	7.6
31. **Capital commitments**		
Material capital commitments contracted for or authorised and contracted at the end of the year	**35.0**	–

company balance sheet
at 31 March 2008

	Notes	Company 2008 Rm	Company 2007 Rm
Assets			
Non-current assets			
Interest in subsidiaries	2	**2 800.6**	2 804.9
Deposits at bank		**1.3**	–
Total assets		**2 801.9**	2 804.9
Equity and liabilities			
Capital and reserves			
Share capital and premium	3	**2 750.0**	2 800.0
Retained earnings		**50.3**	3.4
		2 800.3	2 803.4
Current liabilities			
Trade and other payables		**1.6**	1.5
Total equity and liabilities		**2 801.9**	2 804.9

company income statement
for the year ended 31 March 2008

	Notes	Company 2008 Rm	Company 2007 Rm
Revenue	4	**344.1**	260.6
Operating costs	5	**(4.4)**	(4.3)
Profit before taxation		**339.7**	256.3
Taxation	6	**–**	–
Net profit attributable to ordinary shareholders		**339.7**	256.3

company statement of changes in equity

for the year ended 31 March 2008

	Company		
	Share capital and premium Rm	Retained earnings Rm	Total Rm
Balance as at 1 April 2006	2 800.0	0.1	2 800.1
Net profit attributable to ordinary shareholders	–	256.3	256.3
Dividends paid	–	(253.0)	(253.0)
Balance at 31 March 2007	2 800.0	3.4	2 803.4
Net profit attributable to ordinary shareholders	–	339.7	339.7
Shares cancelled	(50.0)	–	(50.0)
Dividends paid	–	(292.8)	(292.8)
Balance at 31 March 2008	**2 750.0**	**50.3**	**2 800.3**

company cash flow statement

for the year ended 31 March 2008

		Company	
	Notes	**2008 Rm**	2007 Rm
Cash flow from operating activities			
Cash generated from operations	7	**(4.3)**	(4.1)
Dividends received		**344.1**	260.6
Cash retained from operating activities		**339.8**	256.5
Cash utilised in investing activities			
Loans to subsidiary companies		**4.3**	(3.5)
Net cash (outflow)/inflow from investing activities		**4.3**	(3.5)
Cash effects of financing activities			
Cost of own shares acquired		**(50.0)**	–
Dividends paid		**(292.8)**	(253.0)
Net cash outflow from financing activities		**(342.8)**	(253.0)
Net increase/(decrease) in cash and cash equivalents		**1.3**	–
Cash and cash equivalents at the beginning of the year		**–**	–
Cash and cash equivalents at the end of the year		**1.3**	–

notes to the company annual financial statements for the year ended 31 March 2008

	Company	
	2008 Rm	2007 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 75 to 82.		
2. **Interest in subsidiaries**		
Shares at cost	**2 800.0**	2 800.0
Indebtedness	**0.6**	4.9
	2 800.6	2 804.9
3. **Share capital and premium**		
Authorised		
150 000 000 ordinary shares of 1c each	**1.5**	1.5
Issued		
99 157 959 (2007: 100 000 000) ordinary shares of 1c each	**1.0**	1.0
Share premium	**2 749.0**	2 799.0
Total share capital and premium	**2 750.0**	2 800.0
4. **Revenue**		
Dividends received	**344.1**	260.6
	344.1	260.6
5. **Operating profit**	**R**	R
Stated after:		
Audit fees – current year	**50 000**	40 000
Other services	**15 000**	44 100
	65 000	84 100
6. **Taxation**	**Rm**	Rm
Taxation	**–**	–
	–	–
The rate of taxation on profit is reconciled as follows:		
Profit before taxation	**339.7**	256.3
Taxation calculated at a tax rate of 29% (2007: 29%)	**98.5**	74.3
Disallowed expenditure/(exempt income)	**(98.5)**	(74.3)
Taxation per income statement	**–**	–
7. **Cash generated from operations**		
Profit before taxation	**339.7**	256.3
Dividends received	**(344.1)**	(260.6)
Increase in trade and other payables	**0.1**	0.2
	(4.3)	(4.1)

interest in subsidiary companies

for the year ended 31 March 2008

	Nature of business	**2008 Carrying value of subsidiaries Rm**	**% Holding**	2007 Carrying value of subsidiaries Rm	% 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		**0.6**		4.9	
Interest in subsidiaries		**2 800.6**		2 804.9	

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

shareholders' information

Shareholders' spread as at 31 March 2008	Number of shareholders Total	%	Number of shares Total	%
1 – 1 000 shares	688	45.84%	341 554	0.34%
1 001 – 10 000 shares	493	32.84%	1 809 224	1.83%
10 001 – 100 000 shares	219	14.59%	7 835 663	7.90%
100 001 – 1 000 000 shares	85	5.66%	24 510 033	24.72%
1 000 001 shares and over	16	1.07%	64 661 485	65.21%
	1 501	100.00%	99 157 959	100.00%

Distribution of shareholders as at 31 March 2008	% of holding
Public:	
Unit trusts/Mutual funds	30.20%
Pension funds	28.91%
Insurance companies	15.63%
Other	14.92%
Non-public:	
Lewis Stores (Pty) Ltd	9.30%
Lewis Employee Incentive Scheme Trust	0.66%
Directors	0.38%
	100.00%

Major shareholdings as at 31 March 2008	% of holding
Beneficial shareholders	
Public Investment Commissioner	19.30%
Lewis Stores (Pty) Ltd	9.30%
Metropolitan Life	7.43%
Old Mutual Life Assurance	5.12%
Templeton Developing Markets Trust	3.74%
By fund manager:	
Old Mutual Investment Group	14.66%
Public Investment Commissioners	12.25%
Franklin Resources	10.56%
Metropolitan Asset Managers	9.41%
Deutsche Asset Managers	4.23%
Geographical analysis of shareholders:	
Beneficial shareholders	
South Africa	63.83%
North America	20.11%
United Kingdom	6.61%
Europe	1.11%
Rest of World	8.34%
	100.00%
By Fund Manager:	
South Africa	66.29%
North America	20.12%
United Kingdom	3.57%
Europe	4.18%
Rest of World	5.84%
	100.00%

shareholders' calendar

Financial year-end	31 March 2008
Final profit announcement	19 May 2008
Final dividend declared	19 May 2008
Annual report	30 June 2008
Last day to trade "cum" dividend	18 July 2008
Date trading commences "ex" dividend	21 July 2008
Record date	25 July 2008
Date of dividend payment	28 July 2008
Annual general meeting	15 August 2008
Interim profit announcement	10 November 2008

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 fourth annual general meeting of shareholders ("AGM") of Lewis Group Limited for the year ended 31 March 2008 will be held at Lewis Group head office, 53A Victoria Road, Woodstock, Cape Town at 10:00 am on Friday, 15 August 2008. **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 2008 accompanying this notice be accepted and approved."

2. **Ordinary resolution number 2**

   Election of directors

   Mr Hilton Saven and Mr Alan James Smart retire in accordance with the company's articles of association. Mr Alan James Smart and Mr Hilton Saven offer themselves for re-election.

   Hilton Saven [age 55]
   Alan James Smart [age 63]

   Brief CVs of the directors are on page 7.

   Appointment of Hilton Saven as director

   2.1 "Resolved that Hilton Saven be and is hereby elected as director of the company."

   Appointment of Alan James Smart as director

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

3. **Ordinary resolution number 3**

   Approval of directors' remuneration for the year ended 31 March 2008

   "Resolved that the remuneration of the directors for the year ended 31 March 2008 as reflected in note 17 to the financial statements, accompanying the notice of annual general meeting is hereby approved and ratified in so far as may be necessary."

4. **Ordinary resolution number 4**

   Approval of directors' fees for the year ended 31 March 2009

   "Resolved that the fees of the directors as reflected below be approved for the year to 31 March 2009:

Chairman	R355 000
Director	R166 000

   If a member of the Audit and Risk Committee, the following additional amount:

Chairman	R170 000
Member	R 71 000

   If a member of the Remuneration and Nomination Committee, the following additional amount:

Chairman	R71 000
Member	R36 000

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

Chairman	R71 000
Member	R36 000

5. **Ordinary resolution number 5**

   Approval of appointment of auditors

   "Resolved that PricewaterhouseCoopers Inc be and they are hereby appointed as auditors of the company for the ensuing year."

6. **Special resolution number 1**

   General authority to repurchase company shares

   "Resolved that the company hereby approves, as a general approval contemplated in sections 85 and 89 of the Companies Act (Act No. 61 of 1973), as

amended, ("the Companies Act"), the acquisition by the company or any of its subsidiaries from time to time of the issued shares of the company, upon such terms and conditions and in such amounts as the directors of the company may from time to time determine, but subject to the articles of association of the company and the provisions of the Companies Act and if and for so long as, the shares of the company are listed on the JSE, subject also to the JSE Listings Requirements as presently constituted and which may be amended from time to time."

Additional information required by the JSE Listings Requirements

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

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

Statement by the board of directors of the company

Pursuant to and in terms of the JSE Listings Requirements the board of directors of the company hereby state that:

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

(b) in determining the method by which the company intends to acquire its shares, the number of shares to be acquired at such time and the date on which such acquisition will take place, the directors of the company will only

make acquisitions if at the time of the acquisition they are of the opinion that:

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

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

Reason for and effect of special resolution number 1

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

7. **Ordinary resolution number 6**

   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."

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

General instructions and information

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

- the directors and managers of the company on pages 7 and 17;
- the major shareholders of the company on page 116;
- the directors' shareholding in the company on pages 69 and 116; and
- the share capital of the company in note 7 on page 87 and an analysis of the shareholders on page 116.

There are no material changes to the group's financial or trading position, nor are there any material, legal or arbitration proceedings that may affect the financial position of the group between 31 March 2008 and the reporting date.

The directors, whose names are given on page 7 of the annual report collectively and individually accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief there are no facts that have been omitted which would

make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the annual report and this notice contains all information required by law and the JSE Listings Requirements.

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

If you hold certificated shares (i.e. have not dematerialised your shares in the company) or are registered as an own name dematerialised shareholder (i.e. have specifically instructed your Central Securities Depository Participant ("CSDP") to hold your shares in your own name in the company'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 (Pty) Ltd, 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 (Pty) Ltd, 70 Marshall Street, Johannesburg, 2001 (PO 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 2008

notes

form of proxy

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, 15 August 2008 ("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 instructions overleaf)

1. or failing him/her

2. or failing him/her

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

	Insert an "X"		
	In favour of	Against	Abstain
Ordinary resolution number 1 Approval of annual financial statements			
Ordinary resolution number 2.1 Election of Mr Hilton Saven as director			
Ordinary resolution number 2.2 Election of Alan James Smart as director			
Ordinary resolution number 3 Approval of directors' remuneration for the year 31 March 2008			
Ordinary resolution number 4 Approval of directors' fees for the year to 31 March 2009			
Ordinary resolution number 5 Approval of appointment of auditors			
Special resolution number 1 Authority to repurchase company shares			
Ordinary resolution number 6 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 (instructions overleaf).

Signed at on 2008

Signature/s

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

Assisted by

(where applicable)

Telephone number:

Please read the notes on reverse side.

form of proxy continued

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 (Pty) Ltd, 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 am on Thursday, 14 August 2008.

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.

Registered number
2004/009817/06

Registered address
53A Victoria Road, Woodstock, 7925

Postal address
PO Box 43, Woodstock, 7915

Auditors
PricewaterhouseCoopers Inc.
Cape Town

Attorneys
Edward Nathan Sonnenbergs

Bankers
ABSA Bank Limited
First National Bank of Africa Limited
Standard Bank of South Africa Limited
Investec Bank Limited

Designed by motiv
Printed by Ince

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