Lewis Group Ltd

Audited Results

for the year ended 31 March 2009

Revenue increased by 5.9%	Headline earnings per share down by 7.6%	Cash flow from operations increased by 20.4%	Dividend per share maintained

OVERVIEW

The Lewis Group business model continued to demonstrate its resilience as the group generated strong cash flows and maintained its dividend in the most demanding trading conditions experienced in the credit retail sector for many years.

The financial stress on consumers has resulted in an increase in debtor costs which contributed to headline earnings per share (HEPS) declining 7.6% for the year.

While Lewis customers have limited exposure to the prevailing high interest rate environment, steep increases in food and transport costs have continued to limit discretionary spending in this target market.

TRADING AND FINANCIAL PERFORMANCE

Revenue increased by 5.9% to R3 807.1 million and merchandise sales grew by 1.6% to R1 919.9 million, a pleasing result in the current climate. Revenue has shown an improving trend towards the latter stages of the financial year and increased by 6.6% in the second half relative to an increase of 5.0% in the first six months.

Finance charges earned were R31.7 million higher owing to increasing numbers of customers selecting longer-term payment options. Insurance revenue no longer reflects the premium earn-out of insurance written in the buoyant trading period of 2007 and includes additional reserves required to cover the higher proportion of longer-term business. Ancillary services rose by R131.6 million, benefiting from the monthly service and initiation fees on accounts opened post the introduction of the National Credit Act.

The group's merchandise strategy of sourcing quality, innovative products which offer real value for money has continued to be a competitive advantage. This strategy has resulted in a 4% increase in sales in the higher margin furniture product category which has grown to 53% of group sales. In the sub-categories, appliances (27% of sales) increased by 3.8% while the more discretionary sound and vision merchandise (20% of sales) slowed by 7%.

The Lewis division, which accounts for 82% of merchandise sales, increased revenue by 5.7%. Best Electric was boosted by the introduction of furniture ranges into stores and lifted revenue by 9.1%. The chain has been rebranded as Best Home and Electric to reflect this change in the merchandise offering. Revenue in Lifestyle Living, which targets higher income earners, was the same as last year.

Lewis successfully piloted a small store concept which has enabled the chain to gain access to high traffic areas at lower rentals. This store concept offers customers key merchandise lines, with the balance of the range available in the electronic catalogues and display screens in-store. This store format will form part of the Lewis expansion plans.

Customer loyalty is vital in tough trading conditions and the store-based customer re-serve model resulted in a high level of repeat business. Store promotions were increased to achieve this objective. Marketing activity was increased to attract new customers.

Gross margin inclusive of foreign currency gains was impacted by the strengthening of the Rand late in the reporting period. Excluding this currency movement, margins were relatively stable but remain under pressure owing to higher levels of promotional activity.

The group operating margin was 22.1% (2008: 25.9%), comprising retail at 12.9% (2008: 14.4%), risk services (insurance) 31.4% (2008: 31.1%) and financial services 36.7% (2008: 50.2%).

Stock was well managed and the inventory turn improved from 5.5 to 5.8 times.

DEBTORS BOOK

Credit risk management strategies have been consistently applied through the group's centralised credit granting process utilising the group's specifically designed application and behavioural scorecards. The decline rate of credit applications has increased from 22.5% in 2008 to 25.4%, evidence of the higher levels of consumer indebtedness.

The increase in debtors costs from 6.5% to 10.0% of net debtors reflects the impact of the tougher collections environment.

The doubtful debt provision for the year was 15.7% of net debtors (2008: 13.5%). This is calculated applying the net present value of the expected cash flows from slow-paying and non-performing accounts. A detailed debtors payment analysis is shown below. The movement in the doubtful debt provision was well contained in the second half of the year, increasing by R45 million relative to an increase of R92 million in the first six months.

In the current environment the group's store-based collections model is proving effective as the direct relationship through monthly contact with customers provides an early indication of payment difficulties.

CASH FLOW AND CAPITAL MANAGEMENT

The group has remained strongly cash generative, with a 20.4% increase in cash generated from operations to R669.7 million. This can be attributed to efficient cost and working capital management.

Gearing at 23% remains the same as last year.

A final cash dividend of 179 cents per share was declared, bringing the total dividend for the year to 323 cents per share, the same level as 2008.

Cash returned to shareholders in dividends and share buy-backs has totalled R1.6 billion since the group's listing on the JSE in 2004, equivalent to 57% of the group's market capitalisation of R2.8 billion at the time of listing.

CEO SUCCESSION

As previously advised, Alan Smart, the chief executive officer of the group, will be retiring in September 2009. Alan will continue to serve on the board as a non-executive director which will ensure that the business retains his extensive furniture retailing experience.

Johan Enslin, the chief executive officer designate, will succeed Alan with effect from 1 October 2009 and will be appointed to the board as an executive director.

PROSPECTS

Continued government and private sector infrastructure spend bodes well for ongoing job creation and retention in several sectors of the Lewis target market. However, rising retrenchments and unemployment remains one of the major risks facing the South African economy in the year ahead. The group's national store base and diverse customer profile should limit the impact of unemployment affecting a particular sector of the economy or geographic region.

While the group will continue to focus on organic growth from existing stores, a cautious expansion programme will see 20 to 25 stores opened across the three trading brands. Lewis is also well positioned to benefit from increased customer traffic as a result of store and brand consolidation among competitors.

Trading conditions are expected to remain difficult in the year ahead. However, the improving trend in revenue growth and the slowing bad debt provision in recent months provide encouraging signs. Sales for the first six weeks of the new financial year continued to improve on the positive trend of recent months.

DIVIDEND DECLARATION

Notice is hereby given that a final cash dividend of 179 cents in respect of the year ended 31 March 2009 has been declared payable to holders of ordinary shares.

The following dates are applicable:

Last date of trade "cum" dividend	Friday, 17 July 2009
Date trading commences "ex" dividend	Monday, 20 July 2009
Record date	Friday, 24 July 2009
Date of payment	Monday, 27 July 2009

Share certificates may not be dematerialised or rematerialised between Monday, 20 July 2009 and Friday, 24 July 2009, both days inclusive.

For and on behalf of the board

David Nurek *Chairman* **Alan Smart** *Chief Executive Officer*

Cape Town
18 May 2009

EXTERNAL AUDITOR'S OPINION

The external auditors, PricewaterhouseCoopers Inc, have audited the group's annual financial statements and the abridged financial statements contained herein for the 12 months ended 31 March 2009. A copy of their unqualified reports are available on request at the company's registered office.

INCOME STATEMENT

	Notes	12 months ended 31 March 2009 Rm Audited	% Change	12 months ended 31 March 2008 Rm Audited
Revenue		**3 807.1**	5.9%	3 596.4
Merchandise sales		**1 919.9**		1 889.7
Finance charges earned		**826.6**		794.9
Insurance premiums earned		**581.4**		564.2
Ancillary services		**479.2**		347.6
Cost of merchandise sales		**(1 318.3)**		(1 272.1)
Operating costs		**(1 648.5)**		(1 393.9)
Employment costs		**(538.4)**		(504.2)
Administration and IT		**(173.1)**		(167.0)
Debtor costs	2	**(338.8)**		(190.4)
Marketing		**(124.0)**		(107.1)
Occupancy costs		**(150.5)**		(135.1)
Transport and travel		**(138.8)**		(127.3)
Depreciation		**(45.8)**		(40.9)
Other operating costs		**(139.1)**		(121.9)
Operating profit		**840.3**	(9.7%)	930.4
Investment income		**76.9**		71.7
Profit before finance costs		**917.2**		1 002.1
Net finance costs	3	**(86.5)**		(56.8)
Profit before taxation		**830.7**		945.3
Taxation		**(263.7)**		(303.0)
Net profit attributable to ordinary shareholders		**567.0**	(11.7%)	642.3
Reconciliation of headline earnings				
Net profit attributable to ordinary shareholders		**567.0**		642.3
Adjusted for:				
Surplus on disposal of property, plant and equipment		**(3.6)**		(4.5)
Surplus on disposal of available-for-sale assets		**(2.6)**		(22.1)
Taxation		**1.2**		2.2
Headline earnings		**562.0**	(9.0%)	617.9
Number of ordinary shares (000)				
In issue		**98 058**		99 158
Weighted average		**88 209**		89 583
Fully diluted weighted average		**88 633**		89 803
Earnings per share (cents)		**642.8**	(10.3%)	717.0
Headline earnings per share (cents)		**637.1**	(7.6%)	689.8
Fully diluted earnings per share (cents)		**639.7**		715.2
Fully diluted headline earnings per share (cents)		**634.1**		688.1

ABRIDGED CASH FLOW STATEMENT

	Notes	12 months ended 31 March 2009 Rm Audited	12 months ended 31 March 2008 Rm Audited
Cash generated from operations	6	**669.7**	556.2
Interest and dividends received		**96.3**	61.0
Interest paid		**(108.5)**	(68.2)
Taxation paid		**(185.6)**	(290.4)
Cash retained from operating activities		**471.9**	258.6
Net cash outflow from investing activities		**(183.0)**	(97.3)
Net cash outflow from financing activities	7	**(234.5)**	(404.3)
Net increase/(decrease) in cash and cash equivalents		**54.4**	(243.0)
Cash and cash equivalents at the beginning of the year		**(636.6)**	(393.6)
Cash and cash equivalents at the end of the year		**(582.2)**	(636.6)

KEY RATIOS

	12 months ended 31 March 2009	12 months ended 31 March 2008
Operating efficiency ratios		
Merchandise gross profit %	**31.3%**	32.7%
Operating margin %	**22.1%**	25.9%
Number of stores	**535**	525
Number of permanent employees (average)	**6 480**	6 696
Trading space (sqm)	**223 102**	220 236
Inventory turn	**5.8**	5.5
Current ratios	**3.3**	3.1
Credit ratios		
Cash and short-term credit sales % of total sales	**35.7%**	33.1%
Bad debts as a % of net debtors	**6.0%**	5.9%
Debtor costs as a % of the net debtors	**10.0%**	6.5%
Doubtful debt provision as a % of net debtors	**15.7%**	13.5%
Arrear instalments on satisfactory accounts as a percentage of net debtors	**9.5%**	10.6%
Arrear instalments on slow-paying and non-performing accounts as a percentage of net debtors	**20.9%**	19.3%
Doubtful debt provision on non-performing accounts	**71.3%**	69.6%
Credit applications decline rate	**25.4%**	22.5%
Shareholder ratios		
Net asset value per share (cents)	**3 348**	3 058
Gearing ratio	**23.2%**	23.3%
Dividend cover	**1.8**	2.0
Return on average equity (after-tax)	**20.0%**	24.4%
Return on average capital employed (after-tax)	**17.7%**	21.4%
Return on average assets managed (pre-tax)	**22.9%**	27.8%

Notes:
1. *All ratios are based on figures at the end of the year unless otherwise disclosed.*
2. *The net asset value has been calculated using 87 820 000 shares in issue (2008: 89 286 000).*

BALANCE SHEET

	Notes	31 March 2009 Rm Audited	31 March 2008 Rm Audited
ASSETS			
Non-current assets			
Property, plant and equipment		**229.7**	200.6
Investments – insurance business		**535.1**	505.4
		764.8	706.0
Current assets			
Investments – insurance business		**199.1**	159.5
Inventories		**228.0**	230.4
Trade and other receivables	4	**2 943.7**	2 615.6
Taxation		**–**	29.6
Cash on hand and deposits		**54.8**	66.8
		3 425.6	3 101.9
Total assets		**4 190.4**	3 807.9
EQUITY AND LIABILITIES			
Capital and reserves			
Shareholders' equity and reserves		**2 939.9**	2 730.0
Non-current liabilities			
Long-term interest-bearing borrowings		**100.0**	–
Deferred taxation		**53.0**	14.4
Retirement benefits		**53.9**	57.7
		206.9	72.1
Current liabilities			
Trade and other payables	5	**404.1**	302.4
Taxation		**2.5**	–
Short-term interest-bearing borrowings		**637.0**	703.4
		1 043.6	1 005.8
Total equity and liabilities		**4 190.4**	3 807.9

STATEMENT OF CHANGES IN EQUITY

	12 months ended 31 March 2009 Rm Audited	12 months ended 31 March 2008 Rm Audited
Share capital and premium	**97.8**	149.1
Opening balance	**149.1**	311.4
Cost of own shares acquired	**(51.3)**	(162.4)
Share awards to employees	**–**	0.1
Other reserves	**107.4**	128.4
Opening balance	**128.4**	156.5
Fair value adjustments of available-for-sale investments, net of tax	**(40.0)**	(27.5)
Disposal of available-for-sale investments recognised	**2.4**	(21.3)
Share-based payment	**10.6**	6.7
Transfer of share-based payment reserve to retained income on vesting	**(0.2)**	(0.9)
Transfer to contingency reserve	**1.8**	9.0
Foreign currency translation reserve	**4.4**	5.9
Retained earnings	**2 734.7**	2 452.5
Opening balance	**2 452.5**	2 059.3
Net profit attributable to ordinary shareholders	**567.0**	642.3
Profit on sale of own shares	**1.1**	21.8
Transfer of share-based payment reserve to retained income on vesting	**0.2**	0.9
Cost of share awards to employees	**–**	(0.1)
Transfer to contingency reserve	**(1.8)**	(9.0)
Distribution to shareholders	**(284.3)**	(262.7)
Balance at end of year	**2 939.9**	2 730.0

SEGMENTAL REPORT

Primary Segments	Retail Rm Audited	Risk Services Rm Audited	Financial Services Rm Audited	Total Rm Audited
2009				
Revenue	**2 213.6**	**581.4**	**1 012.1**	**3 807.1**
Operating profit	**286.1**	**182.8**	**371.4**	**840.3**
Operating margin	**12.9%**	**31.4%**	**36.7%**	**22.1%**
Total assets	**426.4**	**754.6**	**3 009.4**	**4 190.4**
Total current liabilities	**163.6**	**195.1**	**684.9**	**1 043.6**
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

Geographical	South Africa Rm Audited	BLNS* Rm Audited	Total Rm Audited
2009			
Revenue	**3 364.0**	**443.1**	**3 807.1**
2008			
Revenue	3 218.1	378.3	3 596.4

* Botswana, Lesotho, Namibia and Swaziland

ACCOUNTS RECEIVABLE ANALYSIS

The company applies a payment rating assessment to each customer individually, which categorises customers into 13 payment categories. This assessment is integral to the calculation of doubtful debts. The 13 payment categories has been summarised into four main groupings of customers.

An analysis of the debtors book based on the payment ratings is set out below:

		Number of Customers		Doubtful Debt Provision %	
Debtors' Payment Analysis		**2009**	2008	**2009**	2008
Satisfactory paid	No	**497 296**	534 286		
Customers fully up to date including those who have paid 70% or more of amounts due over the contract period	%	**72.0%**	75.1%	**0%**	0%
Slow payers	No	**57 042**	51 759		
Customers who have paid between 70% and 65% of amounts due over the contract period	%	**8.2%**	7.3%	**20%**	17%
Non-performing customers	No	**50 300**	47 130		
Customers who have paid between 65% and 55% of amounts due over the contract period	%	**7.3%**	6.6%	**42%**	42%
Non-performing customers	No	**86 448**	78 413		
Customers who have paid 55% or less of amounts due over the contract period	%	**12.5%**	11.0%	**88%**	86%
		691 086	711 588	**15.7%**	13.5%

ABRIDGED NOTES TO THE FINANCIAL STATEMENTS

1. **Basis of accounting**
These consolidated financial statements are prepared on a historical cost basis, except for certain financial instruments which have been recognised at fair value, and in accordance with International Financial Reporting Standards ("IFRS"), specifically IAS 34 Interim Financial Reporting. The accounting policies applied are consistent with the prior year.

	31 March 2009 Rm Audited	31 March 2008 Rm Audited
2. Debtor costs		
Bad debts, repossession losses and bad debt recoveries	**201.9**	172.1
Movement in doubtful debts provision	**136.9**	18.3
	338.8	190.4
3. Net finance costs		
Interest paid	**108.5**	68.2
Interest earned	**(11.5)**	(6.5)
Forward exchange contracts	**(10.5)**	(4.9)
	86.5	56.8
4. Trade and other receivables		
Instalment sale and loan receivables	**4 007.2**	3 539.8
Provision for unearned finance charges and unearned maintenance income	**(181.1)**	(263.7)
Provision for unearned initiation fees	**(78.3)**	(46.9)
Provision for unearned insurance premiums	**(360.0)**	(290.5)
Net instalment sale and loan receivables	**3 387.8**	2 938.7
Provision for doubtful debts	**(532.7)**	(395.8)
	2 855.1	2 542.9
Other receivables	**88.6**	72.7
	2 943.7	2 615.6

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

	31 March 2009 Rm Audited	31 March 2008 Rm Audited
5. Trade and other payables		
Trade payables	**84.8**	59.6
Accruals and other payables	**142.9**	107.3
Due to reinsurers	**105.3**	102.7
Insurance provisions	**71.1**	32.8
	404.1	302.4
6. Cash generated from operations		
Operating profit	**840.3**	930.4
Adjusted for:		
Share-based payment	**10.6**	6.7
Depreciation	**45.8**	40.9
Surplus on disposal of property, plant and equipment	**(3.6)**	(4.5)
Movement in provision for doubtful debts	**136.9**	18.3
Movement in retirement benefits provision	**(3.8)**	(9.9)
Movement in other provisions	**30.4**	14.0
	1 056.6	995.9
Changes in working capital:	**(386.9)**	(439.7)
Decrease/(Increase) in inventories	**4.1**	(1.9)
Increase in trade and other receivables	**(460.6)**	(440.3)
Increase in trade and other payables	**69.6**	2.5
	669.7	556.2
7. Net cash outflow from financing activities		
Purchase of own shares	**(51.3)**	(162.4)
Dividends paid	**(284.3)**	(262.7)
Proceeds on sale of own shares	**1.1**	21.8
Increase in long-term borrowings	**100.0**	–
Repayment of finance lease liability	**–**	(1.0)
	(234.5)	(404.3)

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

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