always
delivering on

our investor promise

customer service

product innovation

superior technology

business integration

real returns

true performance

and measurable growth

always
delivering

Lewis Group Ltd

annual report **2006**

always delivering on ...

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

contents

corporate

profile

Lewis Group Limited is an investment holding company listed on the JSE Limited in the General Retailers Sector.

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

corporate group structure

Lewis Stores trades under the following retail brands:

Lewis, the largest furniture brand with 402 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 72 branches, is a specialist electrical appliance and audio-visual brand also targeting consumers in the LSM 4 to 7 category.

Lifestyle Living, a growing niche furniture retailer, 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.

financial highlights 2006

- **Merchandise Sales up by**
  16.0%

- **Total Dividend increased by**
  67%

- **Normalised Operating Margin (LY:23.6%)**
  25.3%

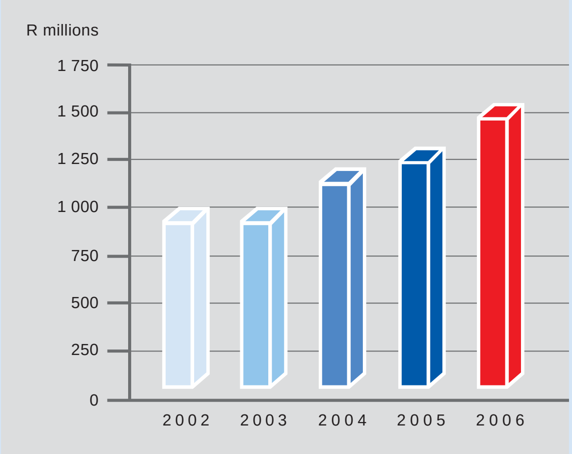
- **Headline Earnings Per Share**

  – Normalised increased by
  30.9%

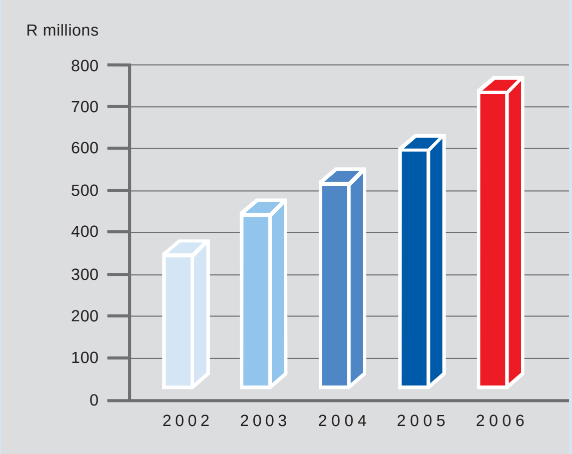
  – IFRS Basis increased by
  19.1%

- **Strong Operating Cash Flow**
  R593 million

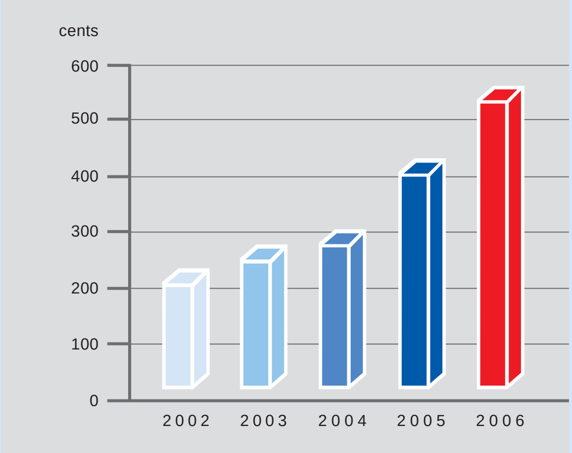
merchandise sales



normalised operating profit



normalised headline earnings per share



The operating profit and headline earnings per share are based on normalised earnings.
The 2002 to 2004 periods calculated in terms of SA GAAP

normalised earnings

We support the efforts of the accounting profession to achieve consistency in financial reporting. However, the application of IFRS 2 in respect of share-based payments has had the consequence of presenting earnings which do not fully reflect the economic performance of the underlying operations. To assist shareholders in their interpretation of the results, normalised headline earnings have been presented on the opposite page, which excludes the effect of the application of IFRS 2 share-based payments in respect of the GUS disposal.

In summary, at the time of listing, share awards and options were granted to employees. GUS Holdings BV ("GUS"), the then holding company, agreed to make available 4% of the issued shares for no consideration to meet these commitments. In terms of IFRS 2, notwithstanding that the awards and options were granted at no cost to Lewis, share-based payments are required to be expensed over the vesting period. The adoption of IFRS 2 resulted in a charge for the 2005 financial year of R10.8 million.

On 26 May 2005, GUS sold its remaining 50% interest in Lewis. This sale resulted in a change in control and in terms of the rules of the various schemes, the share awards and options vested immediately. In terms of IFRS 2, any accelerated vesting of the share awards and options requires immediate recognition of the unrecognised portion. The unrecognised portion to be immediately expensed through the income statement in this year is R58.4 million.

This charge arose from shares made available for no consideration by the former holding company and results in no economic cost or dilutionary effect to existing shareholders. The charge has no impact on operating performance, net asset value, cash position or gearing of the group.

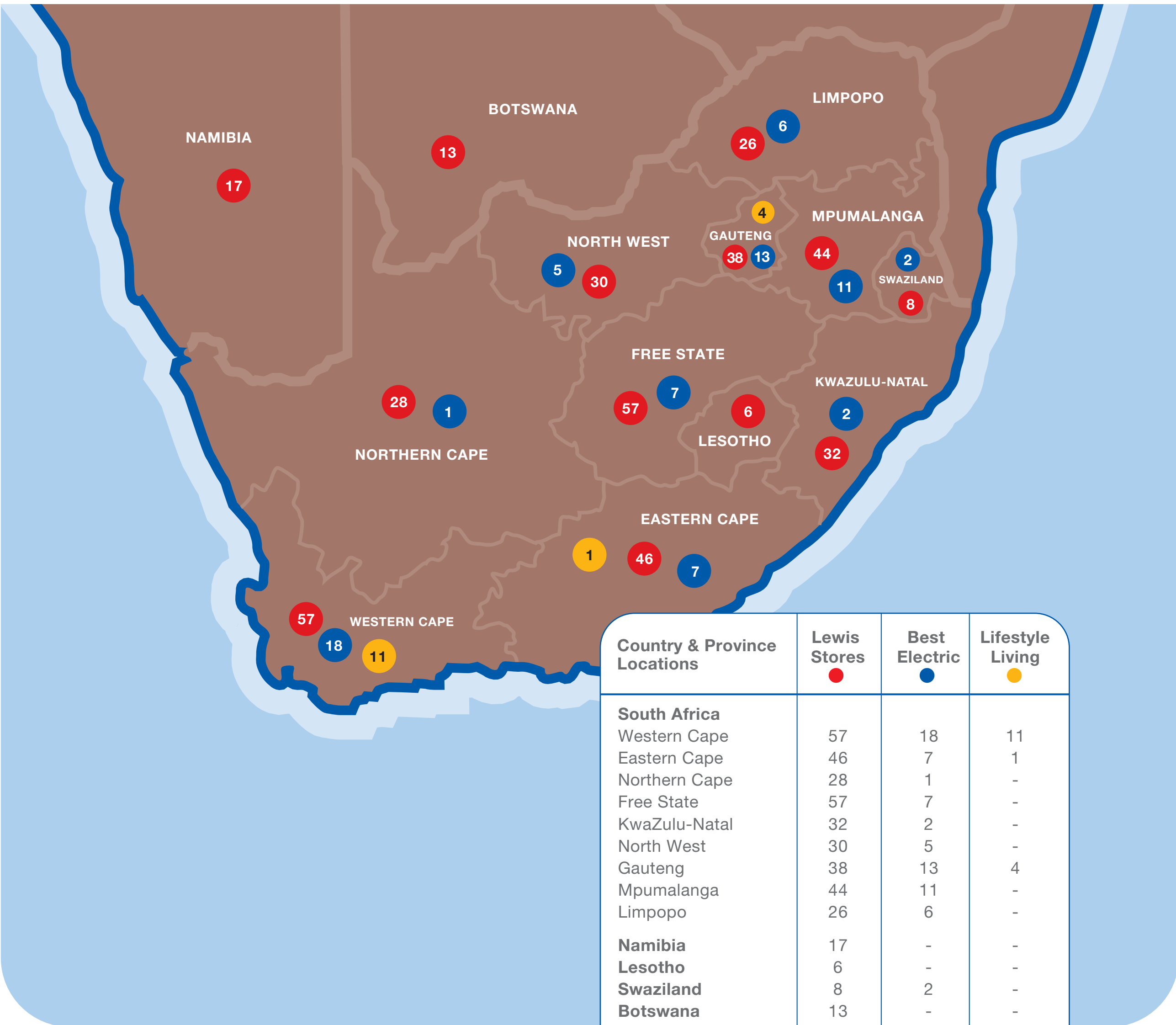
normalised

income statement

excluding the effect of the application of IFRS 2 share-based payments

	12 months ended 31 March 2006 Rm	% Change	12 months ended 31 March 2005 Rm
Revenue	**2 874.5**	**14.5%**	2 511.2
Merchandise sales	**1 567.8**	**16.0%**	1 351.9
Finance charges earned	**674.4**		605.0
Insurance premiums earned	**400.4**		357.6
Services rendered	**231.9**		196.7
Cost of merchandise sales	**(1 020.6)**		(885.0)
Operating costs	**(1 125.3)**		(1 032.7)
Employment costs	**(440.2)**		(406.0)
Administration and IT	**(152.3)**		(134.5)
Bad debts and impairment provision	**(115.5)**		(101.6)
Marketing	**(89.1)**		(79.6)
Occupancy costs	**(98.3)**		(87.9)
Transport and travel	**(98.4)**		(85.6)
Depreciation	**(35.0)**		(36.9)
Other operating costs	**(96.5)**		(100.6)
Operating profit	**728.6**	**22.8%**	593.5
Investment income	**28.9**		37.6
Profit before finance costs	**757.5**		631.1
Net finance costs	**(12.8)**		(42.7)
Profit before taxation	**744.7**		588.4
Taxation	**(237.6)**		(182.4)
Normalised attributable net profit	**507.1**	**24.9%**	406.0
Normalised headline earnings	**510.4**	**27.3%**	400.9
Weighted average shares in issue ('000)	**97 300**		100 000
Fully diluted weighted average shares in issue ('000)	**97 501**		100 000
Normalised earnings per share (cents)	**521.2**	**28.4%**	406.0
Normalised headline earnings per share (cents)	**524.6**	**30.9%**	400.9
Fully diluted normalised earnings per share (cents)	**520.1**	**28.1%**	406.0
Fully diluted normalised headline earnings per share (cents)	**523.5**	**30.6%**	400.9

our geographical
footprint



Country & Province Locations	Lewis Stores ●	Best Electric ●	Lifestyle Living ●
South Africa			
Western Cape	57	18	11
Eastern Cape	46	7	1
Northern Cape	28	1	-
Free State	57	7	-
KwaZulu-Natal	32	2	-
North West	30	5	-
Gauteng	38	13	4
Mpumalanga	44	11	-
Limpopo	26	6	-
Namibia	17	-	-
Lesotho	6	-	-
Swaziland	8	2	-
Botswana	13	-	-
Stores as at 31 March 2006	**402**	**72**	**16**
Total Stores	**490**		

always

delivering

on leadership

with independence

and experience

board of
directors

From left to right	David Nurek • Professor Fatima Abrahams • Hilton Saven • Ben van der Ross • Alan Smart

NON-EXECUTIVE CHAIRMAN

David Nurek (56) 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. He resigned from the Board of Lewis Stores (Pty) Ltd in August 2004.

David practised as a commercial attorney at Sonnenberg Hoffmann Galombik for more than 30 years, ultimately serving as Chairman. 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, Sun International Limited and Pick 'n Pay Stores Limited.

EXECUTIVE DIRECTOR

Alan Smart (61)

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.

Alan was appointed to the Board of GUS plc in 1996 and subsequently resigned on 3 October 2004.

NON-EXECUTIVE DIRECTORS

Hilton Saven (53) B.COM, 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 Moores Rowland, currently being the senior partner of the Cape Town practice and Chairman of Moores Rowland South Africa. He consults widely to private and public companies, particularly in the sphere of corporate finance and holds various directorships. His 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, transaction structuring and communication with shareholders. He is the independent non-executive Chairman of Truworths International Limited.

Ben van der Ross (59) 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 (43) B.ECON(HONS), M.COMM, D.COMM

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 has recently been appointed as Chairperson of the newly-formed Transformation Committee.

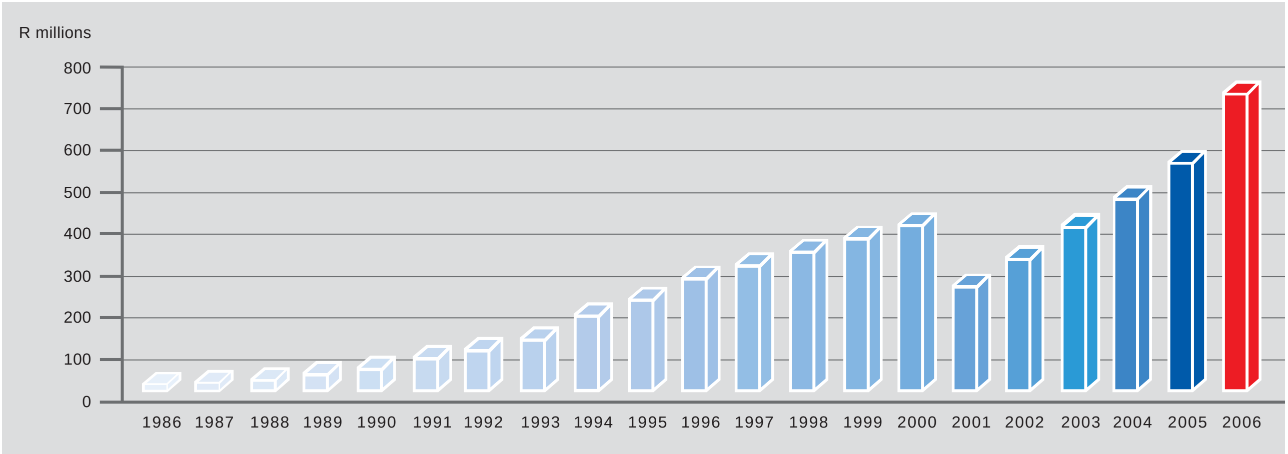
Fatima is currently a professor in the Department of Industrial Psychology at the University of the Western Cape and is the Chairperson of TSIBA Education (endorsed by CIDA Education). She is also a consultant in the human resources field. Currently Fatima serves on the Board of Foschini Group Limited as a non-executive director and is a member of their Remuneration and Transformation Committee.

chairman's report

"Prudent,
stable approach
to business,
yet innovative
and dynamic....
Continues to
deliver consistent
shareholder
value."

David Nurek
(Independent Non-executive Chairman)

20 year operating profit (1986 – 2006)



Introduction

Lewis Group has completed its first full financial year as a listed company. Great strides have been made during this period and management has adapted admirably to operating in a listed environment.

The decision by our former holding company, GUS plc, to dispose of its remaining stake (50% plus one share) in the Lewis Group was met with a favourable response from the investment community, with institutional shareholders acquiring the 50 million shares on offer within a three-day book-building process during May 2005. This has maximised the liquidity in the share by increasing the level of the free float.

As a listed company we are committed to further creating value for our shareholders. Sound operational and financial performance, together with strong growth in local and global equity markets, has seen the group's share price at year-end rise by 120% since listing at R28.00 some 18 months ago. This translates into an increase of R3.36 billion in the group's market capitalisation on the JSE Ltd. While all our shareholders have benefited from this growth, investors who acquired shares following the latest GUS disposal have seen an 81% appreciation in their investment.

Lewis Group has highly experienced management. While our team adopts a prudent, stable approach to business this should not mask the innovation and dynamism which is evident in so many facets of the operations. The executive team has been expanded to add depth to our management resources while at the same time increasing long-term succession opportunities.

Business environment

During the year under review, the strong currency coupled with low international inflation resulted in a stable domestic inflation environment which was positive for interest rates. Consumer spending was further stimulated by an interest rate cut in April 2005, bringing the decline in interest rates since mid-2003 to 650 basis points. Interest rates are at their lowest levels in 25 years.

Consumers have responded to the low interest rates and positive economic environment and this has favoured the credit-based furniture and appliance retailers. The Minister of Finance once again provided personal tax relief in the National Budget in February, announcing total tax benefits of R13.5 billion.

Government is also committed to infrastructural development spending over the next three years on electrification, housing and transportation. This is likely to have major benefits for the private sector.

Middle income South Africans will be the biggest beneficiaries of the tax relief and the increased capital expenditure. As this is the target market served by the Lewis Group, it bodes well for the future.

Financial performance

Following the adoption of International Financial Reporting Standards (IFRS) on 1 April 2005, the group has elected to report "normalised" headline earnings to reflect the true operational performance of the business and assist shareholders in the analysis of the results, particularly in respect of share-based payments which were given by the former holding company and have not impacted on current shareholders (refer pages 4 and 5).

The Lewis Group once again delivered a most pleasing financial performance. Revenue increased by 14.5% to R2 874.5 million, driven by strong merchandise sales growth of 16.0% to R1 567.8 million as the group continued to capitalise on positive trading conditions.

The merchandise margin rose to 34.9% from 34.5%, with the normalised operating profit margin rising from 23.6% to 25.3%.

Normalised headline earnings increased by 27.3% to R510.4 million, driven by good sales growth, improved gross profit margins, strong cash flows and continued prudent management of the credit book.

With its consistently high cash flow, the group has embarked on a strategy to provide healthy returns to its shareholders through reducing the dividend cover and commencing a share repurchase programme, yet retaining sufficient funds to grow organically and to meet its other strategic goals.

Social responsibility

The Lewis Group will continue to explore opportunities for broad-based Black Economic Empowerment. We will continue to expand on our Employment Equity initiatives and increase procurement from suppliers controlled by previously disadvantaged individuals.

As in the past, we will continue to focus corporate responsibility in the areas where we do business and specifically related to our target market.

Directorate

David Tyler, the GUS plc representative on our Board, resigned as a non-executive director following GUS's sale of its holding in the Lewis Group. David was associated with our group for many years and we thank him for his contribution. We welcomed Professor Fatima Abrahams as an independent non-executive director from 1 September 2005. She is a professor in the Department of Industrial Psychology at the University of the Western Cape and serves on the Board of the Foschini Group. Professor Abrahams has been appointed to the Remuneration and Nomination

Committee and the newly-formed Transformation Committee and we are already benefiting from her valuable insight and expertise. The Board now consists of four independent non-executive directors and one executive director, reflecting a balance in line with best corporate governance practice which ensures objectivity for the effective functioning of the Board.

Corporate governance

The group subscribes to the values of good corporate governance and complies substantially with the code of Corporate Practices and Conduct as set out in the King II Report on Corporate Governance and the JSE Ltd Listings Requirements.

Prospects

The Board and management are confident that merchandise sales will continue to grow in real terms in the year ahead. The organic growth via the benefits of innovative merchandising, the expanded store footprint and a continued focus on creating operational efficiencies will further enhance performance. Assuming a relatively stable interest rate and currency in the year ahead, shareholders can expect meaningful earnings growth in 2007.

Thanks

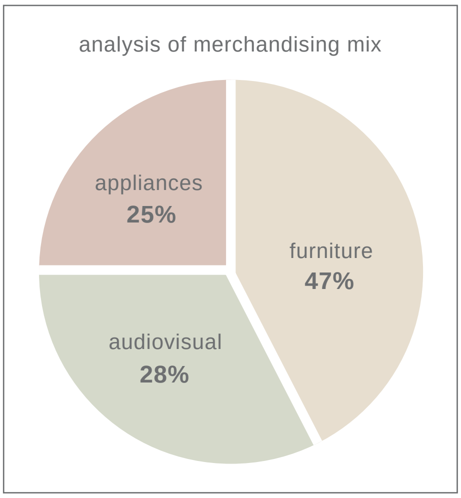
The group has performed particularly well on a number of fronts over the past year and I would like to acknowledge the contribution of the management team in achieving this success. Thanks are due to my fellow directors for their guidance and counsel in overseeing the affairs of the group. To our shareholders, thank you for your belief in our company and we welcome those who invested in the Lewis Group for the first time this year.

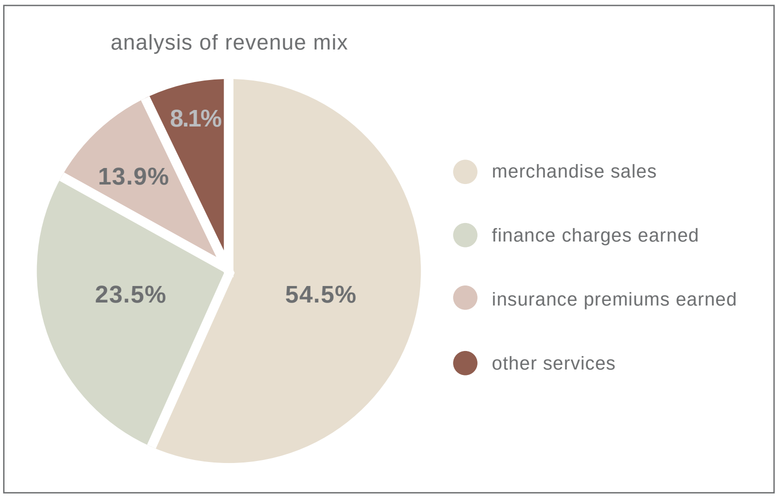
David Nurek
Independent Non-executive Chairman

chief executive's
report

"Because the Lewis Group consistently offers choice, convenience and well-managed credit, we continue to build lifetime relationships and loyalty with our customers."

Alan Smart
(Group Chief Executive Officer)





Introduction

Over the past year we have focused on delivering increased wealth to our shareholders, real value and exceptional service to our customers and a stimulating working environment for our staff.

Trading environment

Government's disciplined fiscal policies have laid a solid foundation for growth. The stable interest rate and inflation environment, together with real wage increases and further tax relief, has enhanced the disposable income of consumers particularly those in our target market of LSM 4 to 7.

Many commentators have reported on the structural changes in the economy which have given rise to a new emerging middle class. As this is the market served by the group we are witnessing this shift first-hand and are also benefiting from the increased spending power of these newly-affluent consumers.

We believe the structural shift will be sustained as the middle income market gain increasing access to formal housing and electricity, improved levels of education and ultimately employability, as well as benefiting from employment equity.

The economic elevation of our population is well demonstrated in the 2005 Lifestyle Standards Measurement (LSM) data published in the All Media and Products Survey (AMPS). In 2001, the people in the LSM groups 4 to 7, our target market, accounted for 44.6% of South Africa's total economically active population. This figure had grown to 50.4% by 2005, with an additional 2.5 million consumers entering the middle income market which represents a 19.5% increase.

Operating performance

Revenue increased by 14.5% to R2 874.5 million, driven by merchandise sales growth of 16.0% to R1 567.8 million. Unit sales volumes rose by 21.6%. Comparable store merchandise sales grew by 12.6%. Second half sales growth was particularly strong reflecting a growth rate of 17.3%.

The sales growth can largely be attributed to the merchandise strategy adopted over the past year. Product sourcing both locally and through a direct import programme has further enhanced our value-for-money merchandise offering. Our strategy of working closely with our manufacturers has resulted in exclusivity of product and design, with the resultant margin benefits.

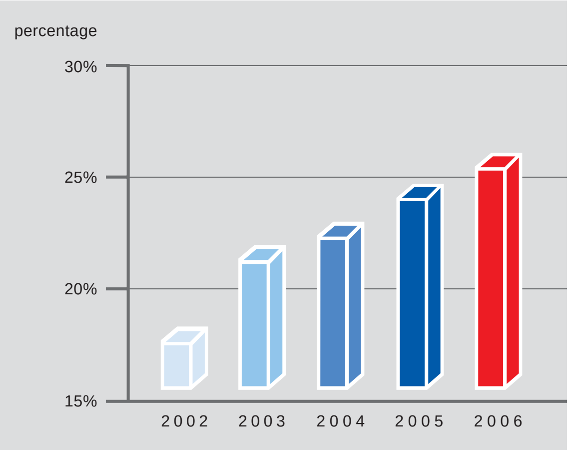
The merchandise margin increased from 34.5% to 34.9%, reflecting the impact of the group's merchandise procurement strategy.

All three chains showed solid increases in merchandise sales. Lewis grew by 12.1% to R1 318.1 million, Best Electric showed a 31.4% improvement to R164.3 million while Lifestyle Living grew strongly off a relatively low base to post a 68.1% increase to R85.4 million. Detailed performance of the three trading brands is contained in the Operations Report on page 31.

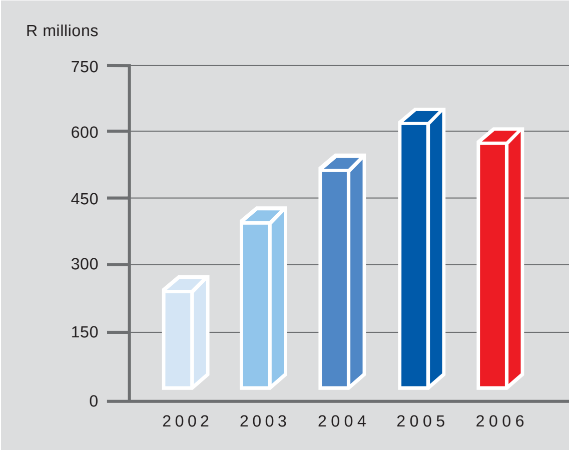
The South African operations generated 89.6% of revenue, while the 46 stores in the neighbouring countries of Botswana, Lesotho, Namibia and Swaziland accounted for 10.4%.

Price deflation for the period was 5.6%. Furniture sales, which account for 47% of total sales, increased by 11.3% in Rand terms and 11.0% in unit sales. Electronic and electrical appliance sales grew by 20.6% in value and 29.4% in volume.

normalised operating margin



operating cash flows



In last year's annual report, we commented on the increasing trend towards cash sales as a result of price deflation. This posed a challenge to the group and I am pleased to report that cash sales have now stabilised at 30%.

Prudent credit management and collections, coupled with the favourable credit environment, continues to reflect in the improvement of the debtors book. The impairment provision as a percentage of the debtors book declined from 14.4% to 12.6% reflecting the quality of the receivables.

Normalised operating margin improved from 23.6% to 25.3% as a result of stronger sales growth, higher gross profit and containment of costs. Normalised operating profit grew by 22.8% to R728.6 million.

Lewis continues to generate significant operating cash flows which have funded the following:

- Share repurchase of R151.9 million.
- Dividends paid during the year of R156.9 million.
- Increased working capital of R160.5 million.

Store expansion

During the year, six Lewis Stores, 14 Best Electric and three new-format Lifestyle Living stores were opened and eight non-performing stores were closed, including four old-format Lifestyle stores. In addition, Lewis opened in townships near major metropolitan areas during 2005, with significant success. Further new stores are planned for township malls in the new financial year. The group plans to open 25 stores across the three chains in the forthcoming year.

All stores are treated as stand-alone business entities and are required to achieve a specified return on investment and level of profitability.

Black Economic Empowerment (BEE)

The attainment of a "BB" EmpowerDEX rating in May 2006 establishes a solid platform to consolidate and facilitate broad-based empowerment within the group. The areas of our strengths and opportunities for improvement have been clearly identified, and this, with the formation of a Transformation Committee in March 2006, will position us to implement further strategies.

Credit legislation

The National Credit Act was approved in parliament in October 2005 and the regulations released in February 2006. The company is confident that its leading-edge credit granting and current IT systems will assist it in meeting the requirements of the Act. The new Act is effective from 1 June 2007. There are issues that need to be clarified before implementation date but the revenue effect of the National Credit Act is expected to be neutral.

Growth strategy

The group's strategy is focused to increase shareholder wealth through sustainable growth. The key elements of the strategy are:

- **Organic sales growth**
  A core strategy of the group is to increase sales from existing stores through innovative procurement, ranging and managing the merchandise mix. Marketing and credit management will focus on

continuing to sell into the current customer base as well as attracting new business.

- **New branch expansion**
  The group has identified 150 store opening opportunities (58 Lewis; 48 Best Electric and 44 Lifestyle Living) in the long term. Site selection is fundamental and the group targets 25 stores per annum. For the coming financial year, eight Lewis, 12 Best Electric and five Lifestyle Living stores are scheduled to be opened.

- **Business expansion**
  The development of ancillary products through strategic partnerships and the formulation of new formats.

- **Acquisitions**
  Lewis remains opportunistic in acquiring value added businesses that leverage off its core competencies.

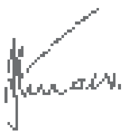
- **Human resources**
  Continue to recruit, retain, develop and train all our staff.

Outlook

Current sales indicate that the trading environment will remain buoyant. Consumer confidence is expected to remain high as tax relief and infrastructure development programmes announced by the Minister of Finance flow through to the economy. The changing South African economy is causing the emerging middle class to provide a continuing stimulus to overall domestic demand. We believe that Lewis is well positioned to take advantage of a favourable trading environment and our outlook remains positive.

Thanks

Our staff have once again performed beyond expectations and I extend my sincere thanks to them for a job well done. To our loyal customers, we thank you for your support. Our suppliers and manufacturers have also made an enormous contribution to our performance for which I thank them. Last but not least, I wish to thank the members of the media and the investment community for their continued interaction with the group.



Alan Smart
Group Chief Executive Officer


Lewis

always

delivering

on growth

with innovation

and sustainability

committee of

executives

From left to right	Charles Irwin • David McAlpin • Johan Enslin • Kenny van Aardt Les Davies • Alan Smart • Chris Heiberg

EXECUTIVES

Les Davies (50) CA(SA)

Chief Financial Officer*

Les is the group's Chief Financial Officer and was appointed as Financial Director of Lewis Stores in July 1989. As Chief Financial Officer, his responsibilities include full accountability for 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, contractual, insurance and statutory compliance matters.

Johan Enslin (32)

Operations Director*

Johan was appointed Operations Director of Lewis Stores (Pty) Ltd on 1 April 2005. He is responsible for the retailing operations of Lewis Stores and Best Electric.

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 responsible for all facets of Lewis and Best Electric store operations.

Chris Heiberg (58)

Merchandise and Marketing 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 offering to consumers and marketing strategies for all Lewis's divisions.

Chris's career with the Lewis Group spans over 30 years. He became a regional controller in April 1980, a Divisional General Manager in April 1982. In 1984, he was appointed Merchandise and Marketing Director.

Charles Irwin (52)

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. During that period he has held various operational positions within the ranks of operational management in the fields of mass merchandising, fast moving consumer goods, consumer credit and general retail management. During this period Charles decided to diversify into the information technology field in which he has been specialising for the last 20 years. Prior to joining Lewis Stores in 1998 he spent nine years at McCarthy Limited.

David McAlpin (45) B.COM, A.C.M.A., MBA

Executive Director*

David McAlpin joined the group in October 2005 as Executive Director of Lewis Stores (Pty) Ltd. He is involved in the strategic and operational aspects of the business.

He has over 15 years' experience both in South Africa and international retail. He previously held the position of Chief Executive of Forza Group Limited. Prior to that appointment, he held various senior positions within the Massmart Group Limited and the Wooltru Group Limited. These included Managing Director of Dion Stores and Managing Director of CNA.

Kenny van Aardt (45) B.COM, B.COM (HON), CA(SA)

Corporate Affairs Director*

Kenny joined Lewis Stores in July 2003. As Corporate Affairs Director, he is primarily responsible for investor relations.

As a qualified chartered accountant, Kenny has been involved in the South African and international fast moving consumer goods/retail industry for the past 15 years, in both executive financial and general management positions. His previous position before joining the Lewis Group was with Edcon. Kenny joined Edcon as Group Financial Director in July 2000 and was later appointed Chief Operating Officer in July 2002, a position which he held until April 2003.

* Director of Lewis Stores (Pty) Ltd

chief financial officer's

report

"With increases of:

- **16% in merchandise sales**
- **23% in normalised operating profit**
- **67% increase in dividend**

Lewis once again delivered strong growth for all its shareholders."

Les Davies (Chief Financial Officer)

Introduction

The group's financial performance for the year has been shaped by real top line growth, improved gross margin and containment of costs resulting in a significant increase in operating margin.

Normalised operating profit increased by 22.8% to R728.6 million (2005: R593.5 million). Attributable profit and headline earnings per share on a normalised basis increased by 24.9% and 30.9% respectively. Operating profit per employee and per square metre have been steadily increasing over the last five years.

The company continues to generate strong cash flows despite the R160.5 million additional working capital requirement this year. A share repurchase programme commenced in September 2005 and 3.36% of the company's share capital (R151.9 million) has been repurchased. The dividend for the full year increased by 67% to 225 cents per share compared to 135 cents per share last year.

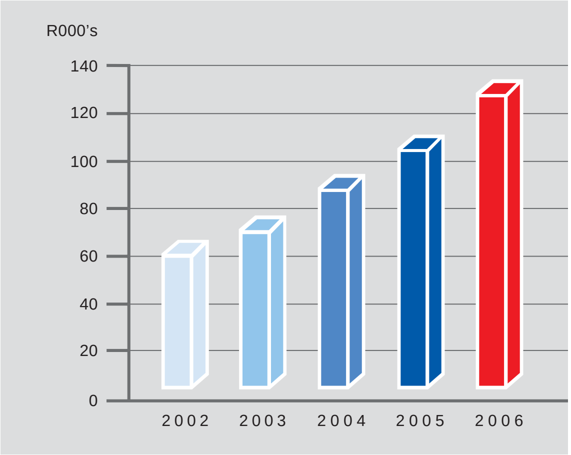
Income statement analysis

Revenue comprising merchandise sales, finance charges, services and insurance income, grew by 14.5% to R2 874.5 million (2005: R2 511.2 million).

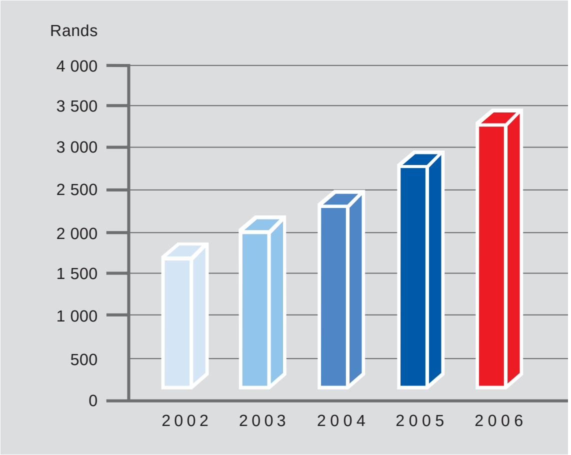
Merchandise sales increased by 16.0% this year mainly as a result of the group's merchandise initiatives. Sales growth was particularly good in the second half of the year reflecting a growth rate of 17.3%.

Insurance revenue earned grew by 12.0% to R400.4 million with a larger charge for the unearned premium reserve due to the higher levels of current trade. Finance charges increased by 11.5% to R674.4 million with lower arrear interest income as a result of the improving debtors book.

normalised operating profit per employee



normalised operating profit per sqm



Merchandise margin increased to 34.9% from 34.5%. This has been the result of merchandise sourcing and supply chain initiatives.

Significant strides have been made in the past few years to improve the quality of the debtors book through the regular upgrades to scoring systems and the focus on collection drives.

The increase in bad debts was 6.1% over last year against a debtors book increase of 9.1%. The impairment provision reflects a release of R17.4 million in the current year as compared to R23.7 million last year, which is attributable to the increase in the debtors book of R244.3 million. The impairment provision has decreased from 14.4% to 12.6% of gross debtors. The overall bad debt and impairment charge amounts to 4% of gross debtors (2005: 3.8%).

Operating expenses, excluding bad debts, the impairment provision and share-based payments, increased by 8.4% to R1 009.5 million, well below the levels of sales growth of 16%. Expense management and the drive for efficiency remains a priority in the business. The main trends in the expenditure are as follows:

- Employment costs at 8.3% higher than last year reflects higher commission earnings as a consequence of the sales growth and improved gross margins.
- Administration and IT increase of 13.2% is distorted by some exceptional recoveries in the prior year and adjusting for this, the increase is 8%.
- Marketing increased by 11.9% to support the sales momentum.
- The rise in occupancy costs is mainly due to the cost of additional storage to cater for the higher stock holding and additional maintenance to existing stores.
- The increase in transport and travel is a consequence of rising fuel costs, a large proportion of which was recovered through service charges.

Investment income consists mainly of interest and dividends on listed investments held by Monarch Insurance Company. The investments are held for the long term and traded when there is a need to rebalance the portfolio. Investment income has declined as a result of the impairment of an available-for-sale asset.

Finance costs declined by R29.9 million due to the cessation of interest payments to the former holding company.

The effective tax rate is currently 31.9% adjusted for the permanent difference created by the share-based payment. We expect next year's tax rate to be slightly higher due to increased STC payments as a consequence of the higher dividend.

Balance sheet review

The increase in insurance investments has largely been driven by improved equity and bond markets.

Inventory levels increased as a consequence of 23 new stores and our strategy to carry higher levels of stock to support sales initiatives. This is evidenced by the second half sales performance of 17.3%.

Gross debtors increased by 9.1% to R2 921.4 million well below revenue growth, reflecting the quality of our debt collection process. The average age of the debtors book has improved to 14.3 months from 14.8 months. Total debtors provisions increased from 35.6% at March 2005 to 36.3% as a result of increased accounting provisions for unearned finance charges, insurance income and maintenance contract revenue.

Deferred tax reflects as a non-current asset and the increase is attributable to lower debtor tax allowances resulting from a change in the mix of credit granted.

Cash flow

We continued to generate strong cash flow, despite the need to fund the larger debtors book and higher inventory levels as a result of buoyant trade.

Strong cash flow is underpinned by:

- growth in debtors book of 9.1% compared to revenue growth of 14.5%, reflecting the quality of our debtor collections;
- reduction in arrears; and
- containment of costs.

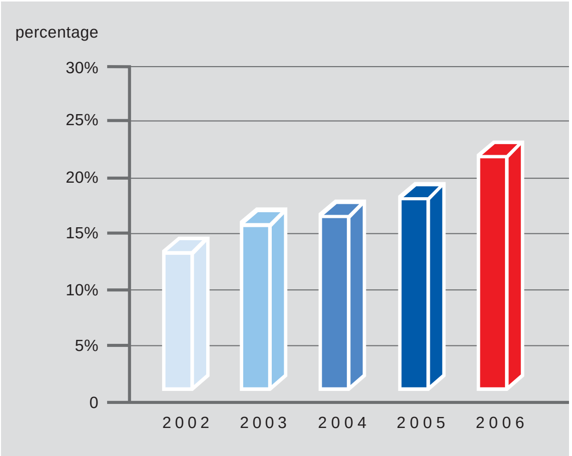
These strong cash flows positioned the company to:

- pay dividends of R156.9 million; and
- repurchase shares of R151.9 million.

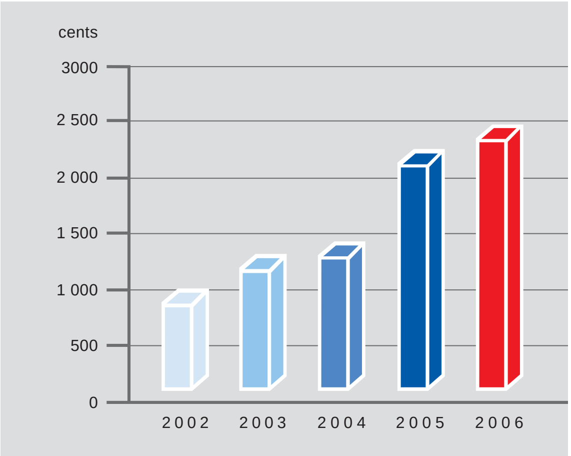
Changes in equity

The increase in other reserves is the result of the rising market values of equities and bonds held by Monarch Insurance Company as prescribed investments.

return on capital employed



net asset value per share



The group repurchased 3.36% of its own shares at an average market price of R44.86. The shares have not been cancelled, but held by the subsidiary, Lewis Stores (Pty) Ltd. This has enhanced earnings per share and improved return on equity.

Segmental reporting

Lewis is the largest single furniture brand in Southern Africa and is the core business of the group. Sales growth for this chain was 12.1%. Best Electric has made a significant contribution to group sales with growth for the year of 31.4%. There has been a turnaround in the Lifestyle Living chain as a result of merchandise initiatives reflecting sales growth of 68.1%.

On a geographic basis, 89.6% (2005: 88.8%) of revenue is generated within South Africa. The balance is attributable to Botswana, Lesotho, Namibia and Swaziland (BLNS). Store expansion has mainly been in South Africa and two stores have been closed in Botswana due to poor trading conditions.

International Financial Reporting Standards

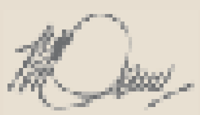
The financial statements have been presented in terms of International Financial Reporting Standards ("IFRS") for the first time this year. We recognise that IFRS is evolving with new statements being issued and revisions or clarifications made to existing standards.

The following changes in accounting policies and interpretations were implemented:

- Use of transitional arrangements in terms of IFRS 1 for property, employee benefits, translation differences and the designation of financial instruments.
- A number of income statement reclassifications were made in order to comply with IFRS interpretation.
- The application of IFRS 2 in respect of share-based payments.
- Property leases with fixed escalations have been recognised on a straight-line basis over the period of the lease in terms of SAICA Circular 7/2005 and IAS 17.
- Compliance with IAS 16 with regard to depreciation and residual values.

Closing

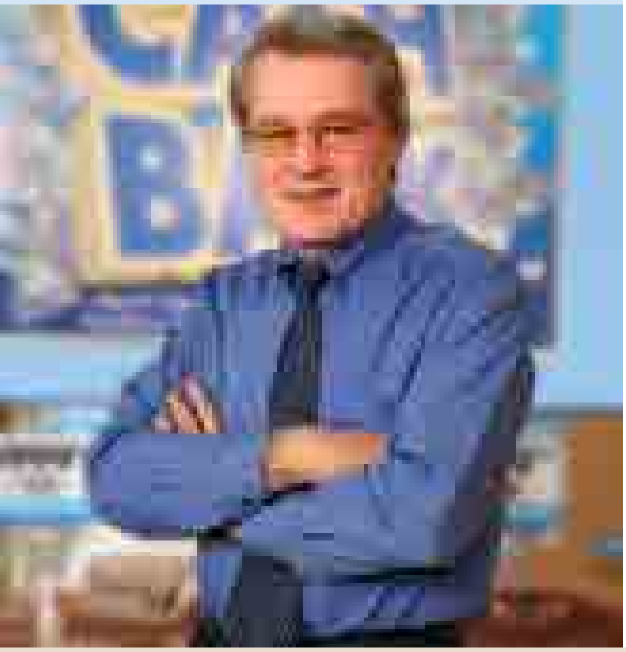
My thanks to the finance team for their effort throughout the financial year.



Les Davies
Chief Financial Officer

"To find the right product
we talk to everybody, everywhere.
We are tough negotiators,
but value our relationships with our suppliers."

Chris Heiberg (Merchandising and Marketing Executive)



merchandising and marketing

merchandising

Enhanced product sourcing has further differentiated the Lewis merchandise offering over the past year and this has contributed to increased turnover and higher margins for the group.

A core merchandising strategy at Lewis is the formation of strategic partnership relationships with suppliers which ensures unique design, exclusivity of high-quality products and potentially higher margins. The merchandise team works closely with local and international manufacturers to achieve these objectives.

Owing to the extensive range offered by Lewis, products are sourced from a diverse range of suppliers, with no single manufacturer producing more than 10% of the total purchases.

The merchandise strategy, which has been successful in the sourcing of local merchandise, has now been further extended to the group's import programme. A relationship was formed during the year with a Hong Kong supply chain specialist which will ensure Lewis's exclusive access to several large factories in the Far East. The group imports 13.7% of its total purchases directly.

As the largest furniture retail brand in South Africa, Lewis can guarantee large volume orders to suppliers which enhances price negotiations. Quality control is of paramount importance to the company. We take steps to ensure that a consistently high standard of merchandise is received in our stores.

Our customers are known to be extremely brand conscious. Exclusive electrical and audio-visual products have been sourced from leading brand manufacturers. Lewis and Best Electric's brand strategy in dealing with household electronic goods is to stock only well-known branded goods with extensive local service support. Consequently, the group does not subscribe to grey market or private label imports.



A benefit of being part of the group is that Lifestyle Living has been able to start sourcing product directly offshore, and with this has come innovation which appeals to the younger, more affluent customer base of the brand. The import programme has also improved margins.

There has been continued deflation in the electronic goods sector being driven mainly by improvements in technology. Sales of electronic goods increased by 20.6% in value and 29.4% in volume.

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

The merchandise team has been further strengthened through the recruitment of additional resources which will enable the brands to maintain a single-minded focus on merchandise offerings.

marketing

Marketing has a dual role in supporting the Lewis Group's business strategy: retaining the loyalty of the current customer base as a means of generating further business and creating brand awareness to attract new business to build market share.

Lewis enjoys a high level of loyalty from its customer base of over 680 000 and in the year under review more than half of the sales were generated from existing customers. A "re-serve" programme identifies the suitability of customers for further credit offers based on their payment behaviour and current debt obligations. Once the programme has assessed the creditworthiness and identified re-servable customers, marketing promotions are targeted at customers to stimulate further sales. The integration of these marketing promotions to the store systems ensures that there is follow through on the offers by sales staff.

Brochures continue to be the major form of advertising, with all current and recently-settled customers receiving a monthly brochure mailing. Brochures are distributed by "knock and drop" which continues to be the most used mechanism for distributing brochures. Brochures are also distributed through regional and local press as well as selected magazines.

The group has regular local promotions in store which take various forms and are directed at regaining settled and retaining existing customers.

Co-operative promotions with non-competing retail partners are specifically designed to attract new customers. These campaigns have proven to be successful and will be expanded in the coming year.

Television is used to build the brand and attract new customers. Brand recognition of Lewis's television advertising reached 72% for the year, substantially above prior year levels.

Overall brand awareness remains well above the industry norm after showing strong growth in recent years. Independent industry research by Adtrack shows that Lewis's brand awareness increased from 40% in 2001 to 75% in 2003, and has remained at this high level for the past two years.

Lewis maintained its second place in weighted brand awareness among furniture retailers in the 2005 Markinor report. Lewis was also ranked second in terms of brand relationship and customer loyalty.

Our in-house advertising studio has the expertise to plan, design and produce most aspects of the marketing media. The focus of our in-house advertising studio ensures the most flexible and cost-effective production and the fastest possible distribution of advertising material to the stores. A leading advertising agency has been engaged to assist the in-house studio with specialist communication services and creative input.

The Lewis Club

The Lewis Club is a customer loyalty programme in which membership is free and automatic to any customer taking any insurance product when purchasing merchandise at Lewis. The Lewis Club has a high level of acceptance.

Lewis Club members receive a monthly magazine, The Club, which includes special offers, discount coupons and regular competitions. The editorial content focuses on general interest and topical lifestyle issues relevant to the Lewis customer profile. Club members can also apply for educational bursaries worth R2 million and have free access to 24-hour legal, medical and HIV/AIDS advice lines. Members also participate in a monthly competition for prizes totalling R300 000.

“Lewis merchandise has filled many homes and memories. That’s why customers keep coming back.”

Johan Enslin (Operations Executive)

operations

The Lewis decentralised structure enables stores managers to be in control of all aspects of the customer interface. This results in Lewis stores being closer to our customers and ensures customer satisfaction.

The branch network of 490 stores across the Lewis, Best Electric and Lifestyle Living chains employs 5 879 people, including sales staff, administrative personnel, branch, regional and divisional management.

The Lewis and Best Electric structure includes 11 divisional general managers (DGM) who are responsible for all store operations and report to the operations director. A DGM has five or six regional controllers reporting in, while the regional controllers in turn have responsibility for six to eight stores each. The DGMs each have an average of 17 years' experience with the Lewis Group and the regional controllers each have an average of 10 years' experience.

Lifestyle Living's 16 stores are spread across three regions, with the regional managers reporting to the operations executive at head office.

The strong sales performance over the past year reflects the benefits of the multi-disciplinary approach, with the branch operations forming a close working relationship with the merchandising, marketing, property development and information technology departments.

An important aspect of operations is the reactivation of settled customers and a promotional campaign has been successful in regaining in excess of 10 000 customers.

The group has created a store culture which is both empowering and entrepreneurial. Store managers are accountable for the entire operation of their branches, including sales and credit collection, and are empowered to make decisions which influence the performance of their stores.

Managers are remunerated in line with this philosophy, earning a basic salary and incentives based on their sales, credit collection and profit performance. Sales staff remuneration is largely commission-based with incentives for achieving performance targets. Credit collection staff also have collection performance incentives.

As more than 80% of the staff are employed in the branch operations, the human resources department is housed in the operations division. The training and recruitment functions are managed on a decentralised basis, with 11 divisional personnel managers providing a support service to operations.

Training and development remains a priority for the group. During 2006 1 827 staff members attended training courses, including 1 468 previously disadvantaged staff.

Lewis strives to be a leader in product knowledge training and has introduced a television broadcast system, Lewis Live, which is a weekly product knowledge training tool. Products are featured weekly and every salesperson throughout the country is required to write a test on these products.

We continually monitor our employee profile to reflect the demographics of the customer base and the communities in which Lewis trades. More than 75% of our staff are from black communities.

Lewis Stores

		2006	2005
Revenue, including insurance premiums written	Rm	2 485.0	2 225.5
Revenue growth	%	11.7	7.9
Merchandise sales	Rm	1 318.1	1 176.1
Merchandise sales growth	%	12.1	10.6
Comparable store merchandise sales growth	%	11.3	10.0
Number of stores		402	400
Total trading space	m^2	192 223	191 348
Increase in total trading space	%	0.5	0.3
Annual revenue per m^2	R'000	12.9	11.6
Credit sales	%	72.9	71.4

Lewis is South Africa's single largest furniture brand with 402 stores across the country, including 44 stores in the neighbouring states of Botswana, Lesotho, Namibia and Swaziland. Each store has a basic range of merchandise which is stocked in all stores. In addition to the basic range, there is an optional range which managers select from and which is appropriate to their individual markets and, thereby, catering for regional differences that exist in Southern Africa.

During the year Lewis opened six stores and closed four small under-performing stores. The brand has expanded into townships near major metropolitan areas with four of these new stores being opened in malls in Khayelitsha (Cape Town), KwaMashu (Durban), Lenasia (Johannesburg) and KaNyamazane (Nelspruit). A further eight stores are targeted for the forthcoming year.

Best Electric is a specialist electrical appliance and audio-visual retail chain with a similar customer profile to Lewis in the LSM 4 to 7 categories. The chain has grown rapidly since its formation in 1998 and operates out of 72 stores. The Best Electric concept is based on small stores situated in high traffic areas with high trading densities, with an average store size of approximately 150 m².

The model is based on popular branded merchandise fully supported by South African distributors. There is differentiation of product when compared to Lewis with Best Electric leveraging off the group's buying power. No "grey" unsupported merchandise is stocked by Best Electric.

Best Electric

		2006	2005
Revenue, including insurance premiums written	Rm	295.2	224.5
Revenue growth	%	31.5	26.5
Merchandise sales	Rm	164.3	125.0
Merchandise sales growth	%	31.4	26.2
Comparable store merchandise sales growth	%	10.8	11.5
Number of stores		72	58
Total trading space	m²	10 929	9 263
Increase in total trading space	%	18.0	14.2
Annual revenue per m²	R'000	27.0	24.2
Credit sales	%	66.1	69.1

Fourteen new stores were opened during the year and the store base has grown by close to 50% over the past two years. The chain will open approximately 12 new stores during 2007.

Lifestyle Living has been repositioned following its acquisition by the group in 2003 and the store location strategy reflects this revised business model. Three new stores were opened while four stores were closed in areas that were not appropriate for the new positioning of the chain. The new-format, mall-based stores opened during the year are performing well.

The Lifestyle chain has the potential to grow significantly in future. New stores are being planned for 2007 with several new sites being identified in areas where a higher level of credit is required.

Lifestyle Living

		2006	2005*
Revenue, including insurance premiums written	Rm	94.3	61.2
Revenue growth	%	54.1	n/a
Merchandise sales	Rm	85.4	50.8
Merchandise sales growth	%	68.1	n/a
Comparable store merchandise sales growth	%	58.4	n/a
Number of stores		16	17
Total trading space	m²	7 049	6 984
Increase in total trading space	%	0.9	n/a
Annual revenue per m²	R'000	13.4	8.8
Credit sales	%	35.5	35.6

* No comparatives were reported in 2005 as Lifestyle Living was acquired during the 2004 financial year.

insurance

Monarch Insurance Company ("Monarch") is a wholly-owned subsidiary of the group providing customer protection insurance products to credit customers who require insurance on the goods bought on credit for the contract period.

Monarch is governed by a board of directors which includes three executives of Lewis Stores, and two non-executive directors, Robert Shaw and Ray Sanger. The non-executive directors have extensive experience in the short-term insurance and reinsurance industries.

Monarch operates under a restricted short-term insurance licence and is registered with the Financial Services Board. The Short-Term Insurance Act requires Monarch to hold insurance reserves to meet future financial obligations and these funds may only be invested in certain asset classes and within limits set out in the regulations promulgated under the Act.

As Monarch is licensed to operate in South Africa only, there are contracted third-party insurance partners in Botswana, Lesotho, Namibia and Swaziland to enable the group to offer customers in these countries similar insurance products on their credit purchases.

The basic insurance package covers the settlement of the outstanding balance in the event of the death, permanent disability or retrenchment of a customer. The insurance also covers the replacement of goods as a result of any form of accidental loss, such as fire, theft or natural disaster. A further feature of the insurance scheme is that customers automatically qualify for free membership of the Lewis Club.

Monarch utilises the group's existing operational infrastructure to sell insurance products, collect premiums and administer claims.

Monarch reinsures 40% of its insurance risk through Constantia Insurance Company. The investment of the insurance portfolio is outsourced to Sanlam Investment Management who determines the investment and asset allocation strategies in consultation with the Board of Monarch.

customer service

Delivery of superior customer service forms the foundation of the Lewis Group as evidenced in the company pledge. This function is relevant in ensuring that the group is meeting, and where possible exceeding, customer expectations.

While customer loyalty is reflected in the high level of repeat sales, a range of research techniques are applied to assess customer service standards across the group. Customer satisfaction levels averaged 93% in 2006, in line with the level in the previous year.

Mystery shoppers visit all stores across the three chains twice a year. This project is outsourced to an international client satisfaction research house to assess the professionalism of the customers' sales experience, the image of the store, the sales skills and product knowledge of store staff, merchandise presentation and pricing, and a general impression of the visit to the store.

Telephone calling is undertaken each year to all stores to assess the level of professionalism, product knowledge and telephonic sales skills of the staff.

Random courtesy surveys are conducted to evaluate the purchasing experience of new customers. These surveys are done at regular intervals over the account lifecycle to monitor ongoing satisfaction levels of customers.

All reports from the research company are given to the Operations Director for actioning.

Staff are recognised for their outstanding customer service through nomination to the Service Excellence Club. Qualification is based on feedback from customers, reports from mystery shopping research or nomination by senior management for consistently high customer service. Members of this club qualify for attractive incentives, including an annual draw for a motor car.

A toll-free facility which is advertised in stores and on customer statements encourages customers to contact a Customer Care department in the event of any service issue.

credit

The Credit division continually strives to improve the quality of the debtors book through maintaining industry-leading credit risk management techniques and collection processes. Credit-based sales accounted for 70.1% of sales in 2006 and one of the key focus areas is the granting and management of credit.

The credit granting and approval function is centralised, covering credit risk scoring, credit approval, underwriting, fraud prevention and customer account management. The credit collections process is, however, decentralised and stores are responsible for the cash collection and follow-up of their defaulting customers. The head office credit management team is supported by 11 divisional credit managers and 100 regional account managers based in regional offices around the country.

Credit risk management

Advanced technology-based credit scoring systems have been applied since 1998 to determine the credit risk of applicants. Credit application scorecards are constantly being refined and strengthened using the latest predictive indicators. A fourth generation credit application scorecard will be implemented in early June 2006.

The international expertise of Experian is utilised in the development of risk scorecards while the in-house team is responsible for the application, monitoring and maintenance of the credit management system.

Summary of credit performance

		2006	2005
Gross debtors book	Rm	2 921.4	2 677.1
Increase in gross debtors book	%	9.1	1.8
Impairment provision	Rm	368.0	385.4
Percentage of gross debtors book	%	12.6	14.4
Bad debts written off and impairment provision	Rm	115.5	101.6
Percentage of gross debtors	%	4.0	3.8
Arrears percentage (full contractual)	%	22.0	25.7
Average length of book	Months	14.3	14.8
Credit application decline rate	%	22.4	20.5

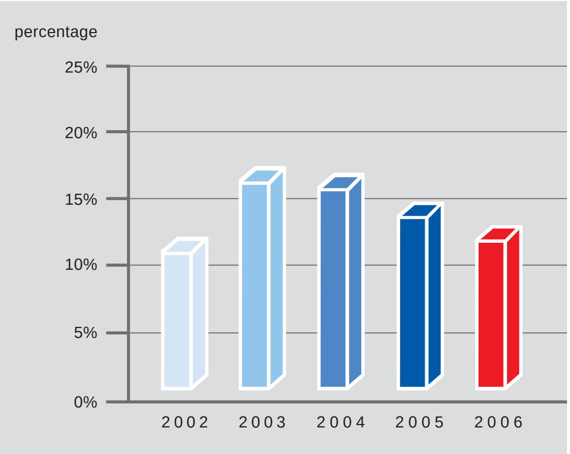
One of the features of the group's credit process which sets it apart in the retail sector is the speed at which credit is approved anywhere in South Africa. A credit decision is relayed back to the store on average nine seconds after submission of the credit application.

Applications are transmitted by the stores via the VSAT Satellite Network to the Transact SM 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 to Strategy Manager, where the credit application scorecards and policy rules are applied.

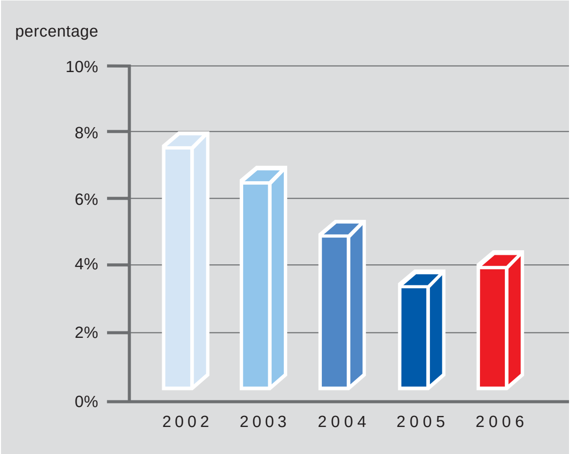
Following this process, a score is assigned to an applicant which is then used together with the applicant's income, and taking into account the applicant's total indebtedness, to calculate an initial credit limit for the new customer.

During the past year, an average of over 30 000 new credit applications were processed each month, with an annual acceptance rate of 77.6% (2005: 79.5%).

debtors impairment as a percentage of gross debtors



bad debt and impairment charge
as a percentage of gross debtors



Note: 2003 includes the first time adoption of AC133/IAS39

As the relationship between a store manager and customer is critical to the credit-granting process, a scorecard recommendation to decline a credit application may be appealed to the credit referral department at head office, in consultation with divisional and regional staff.

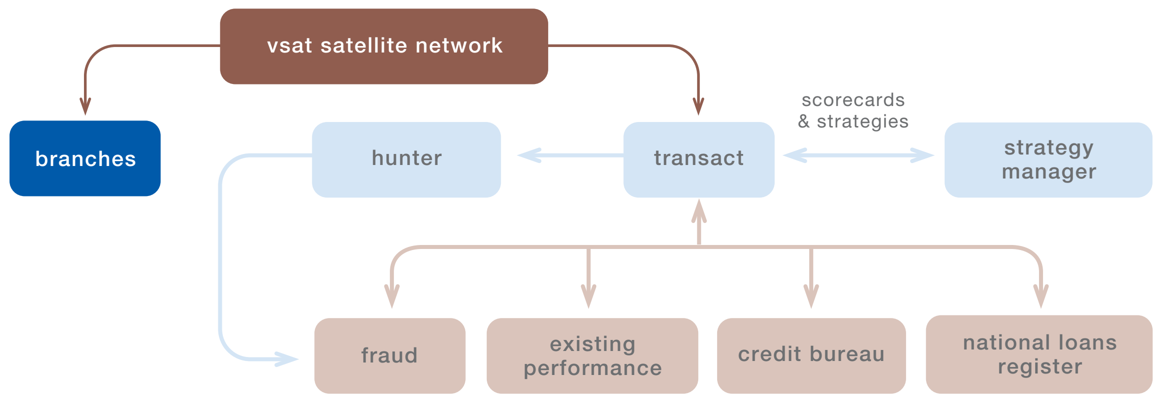
In order to manage existing customer credit levels, a behavioural scorecard, which assesses the risk of existing customers, has been fully integrated into customer account management strategies and processes. These scorecards not only take account of the credit extended by Lewis but also across the entire credit industry. This is a key element of credit risk management and will become increasingly important to meet the limit management and affordability calculation requirements which will be introduced with the new credit legislation. Through the implementation of these scorecards and the subsequent improved segmentation, Lewis has realised both a reduction of credit risk levels and also an increase in the volume of re-servable business.

Credit collection

The continued tight management of credit collection processes and the growth in the debtors book of 9.1% has seen a marginal increase in bad debts during the year of 6.1% to R132.9 million (2005: R125.3 million). The impairment provision as a percentage of the receivables declined from 14.4% to 12.6% reflecting the improving quality of the debtors book. There was also a corresponding decline in arrears from 25.7% to 22.0%. While this improvement can be partially ascribed to the favourable economic environment, industry-leading credit granting systems and collection processes have played a major role in achieving this performance.

Our decentralised credit collection process has proved successful as the store personnel develop a relationship with their customers. Debtors clerks at the stores are incentivised to meet monthly and quarterly collection targets.

superior credit approval process



corporate services

group property and development

Store location strategy is key to trading performance. Lewis outlets are generally situated in main streets and town centres, with some presence in shopping centres. The Best Electric model is ideally suited for shopping areas with higher footfall, while Lifestyle Living stores are located in urban shopping malls.

The group property and development team is responsible for the administration of the property portfolio, negotiating lease agreements and renewals, sourcing new sites, managing store openings and refurbishments, co-ordinating store security and handling lease administration.

As the core business is furniture retailing and not property ownership, we have adopted a policy of leasing premises and currently occupy over 440 rented sites across the country.

Sourcing new locations is ongoing and the property team will continue to locate new sites and assist in managing the store expansions nationally.

	Lewis	Best Electric	Lifestyle Living	Total
Stores at 31/3/05:	400	58	17	475
– opened	6	14	3	23
– closed	4	–	4	8
Balance at 31/3/06	402	72	16	490

The group opened 23 new stores during the year, nine of which were in the Gauteng area.

information and communication technology

The information technology team is tasked with leveraging technology in the most cost-efficient manner to support the group's strategy. The main focus during the year was building further enhancements into the technology platform to improve service to branches, while creating infrastructure to ensure that all head office, branch and disaster recovery systems are resilient to external factors.

The Lewis Group has invested heavily since 1998 to create a technology platform that is up to date, stable, low cost and scaleable. The key investment areas are detailed below:

Credit management technology

Transact, an automated credit application processing system, was introduced in 1998 to enable online bureau enquiries and facilitate the introduction of both the first application scorecard developed by Experian and the application of centralised credit policies. While the Lewis Group utilises the international expertise of Experian in the development and maintenance of risk scorecards and strategies where necessary, the Lewis Group also maintains the required experience and technical skills internally to maintain, adapt and improve the application of credit management systems.

Customer relationship management technology

In 2003, the Lewis Group introduced an Experian-developed customer management system called "Stratagem". The system is used for behavioural scoring, credit limit management, marketing and collections. Subsequent to the implementation of Stratagem, the first behavioural scorecard was adopted in mid-2003. Stratagem forms part of the monthly account management process and enables customers to be segmented at



multiple levels. It also allows for a combination of customer management strategies to be applied to each customer. The system is not a modular-based system and additional scoring modules and actions can easily be added into the workflow without requiring any additional systems development or costs.

Branch computer systems

The Lewis Group's in-store financial transactions operate on a transaction processing point-of-sale system. 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 that are located at both store and head office levels. The system also has strict change controls over finance charge rates, minimum deposit percentages, insurance and maintenance premiums. All changes have to be verified by the Lewis Group finance and IT executives and no changes can be made at branch level.

Intranet technology

The Lewis Communication System (LCS), an intranet-based system which links head office with the branch network, was expanded during the year. LCS provides an online product knowledge training and assessment facility in addition to enabling easy communication between branches and head office. It also facilitates several automated functions which eliminates administrative costs.

Outsourced services

While the group has an in-house management team, the maintenance of the software portfolio is outsourced to systems developers from Universal Computer Services (UCS). Maintenance of the branch network is outsourced to Unisys and open-source Linux software is used in stores.

Disaster recovery

The Lewis Group 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 has been set up. 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. Furthermore, a diesel-powered generator has been installed at head office to ensure that key systems are not put at risk.

always

delivering

on integrity

with transparency

and social responsibility

corporate social

responsibility

The group is committed to uplifting the communities which we serve. The main objective of our social responsibility plan is to sponsor projects which strive for economic prosperity and growth, yet encourage environmental and social progress.

Black Economic Empowerment (BEE)

The achievement of a “BB” EmpowerDEX rating in May 2006 establishes a solid platform to progress broad-based empowerment within the group. To consolidate and to further improve our credentials, the Board has formed a Transformation Committee in March 2006. Similarly, on the executive management level, a transformation committee has been formed to reinforce the implementation of the current strategies.

Transformation

We are committed to ensuring a workforce that is representative of the demographics of South Africa and our customer base. In 2000, a five-year employment equity plan was compiled after consultation with stakeholders, including the trade unions. The targets set for 2005 have been met. The group will continue to monitor the progress of this strategy and senior management are responsible for its successful implementation.

All staff received free shares at date of listing and the majority of recipients were from previously disadvantaged communities.

To support the process of transformation, staff drawn from previously disadvantaged groups have been assisted in their development through participation in training programmes. In addition, a development pool comprising staff from previously disadvantaged communities, who have been identified as having management potential, are receiving further training and exposure.

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, 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, compared to the average retail payment term of 90 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.

HIV/AIDS

We have an HIV/AIDS awareness programme which is integrated into the regular company training programmes available to our staff. The objective of the course is to advise staff members of the effects of AIDS and available prevention methods. In addition, brochures are regularly distributed to staff.

During the current year, counselling, advice and assistance was provided to employees who requested it as a consequence of their personal circumstances. These services are provided at no cost to employees and are outsourced, guaranteeing total confidentiality.

Lewis has introduced a new programme to employees where a contracted service provider will provide the following services:

- Employees have access to post-AIDS exposure telephonic counselling through the service provider's care centre.
- The cover includes employee and immediate family.
- The affected person is covered for initial medication, a number of free consultations and assistance in locating the nearest clinic for further treatment.

The group bears the cost of this cover on behalf of all its employees.

Communities

We are committed to the national community which we serve.

Lewis has sponsored the building of two classrooms with full electrical fittings and connections and a 5 000 litre rainwater tank for the Fabeni Primary School in the Tugela Ferry District in rural KwaZulu-Natal. The project was managed by Project Build (formerly known as Natal Schools Project), a charitable trust. Project Build aims to improve the quality of life for disadvantaged communities in KwaZulu-Natal by addressing their need for better educational and community facilities.

The school which we are sponsoring, currently accommodates 194 learners in three existing classrooms. A substantial number of classes are conducted in the open.

The building of these classrooms was done utilising labour from the local community. The project was completed by the end of April 2006.

Lewis has also fully furnished the HOKISA Peace Home in Masiphumelele in the Western Cape. HOKISA, a non-profit organisation, cares for children infected or affected by HIV and AIDS who cannot be looked after by their own parents or family. Furthermore, the Peace Home is also used as a meeting place for group discussions for the prevention of HIV/AIDS. All employees of the home are residents of the Masiphumelele township who receive skills training at HOKISA and have become educators on HIV/AIDS in their community. The home was opened in November 2005.

Lewis assists local Cape Town-based orphanages with ad hoc requirements as and when they are required. We have donated furniture, food, paid school fees, medical bills and embarked on clothing and toy collection drives for the children. In addition, clothing and gifts for each child at selected orphanages was bought during the Christmas season.

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. We sponsored the major prizes and our stores in the Western Cape distributed entry forms and handled registration.

Other assistance is provided as follows:

- contributing to the annual Cycle-4-Kids ride where three teams totalling 60 cyclists cycled from Johannesburg to Durban to raise funds for designated charities;
- participated in the Get a Child to Work Project by exposing pupils from disadvantaged schools to the functioning of the business;
- providing financial assistance and donations of kit to sport clubs in previously disadvantaged areas;
- participation in the local Woodstock upliftment project where the group's head office is located; and
- donations to various non-profit organisations are made, in response to requests received.

The Lewis Club

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 R2 million per year to Club members, thereby assisting predominantly previously disadvantaged Southern Africans to further their education.
- Two 24-hour toll-free lines offer Club members legal, healthcare, HIV and parenting advice. The legal and healthcare advice lines each average 9 000 calls per month at a cost of approximately R180 000 per month. These services provide a much-needed free service to customers, particularly those living in rural areas.
- The top three Club prize winners select charities of their choice and each month R14 000 donations are made to these selected charities on their behalf.

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 tenets 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 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. There is an induction programme designed to ensure that the employee is operational within 20 working days of joining. It is the responsibility of operational management to continually identify candidates who require further training to enhance their performance and overall skills.

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.

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. To further enhance the product knowledge of the staff, a weekly television broadcast to the stores has been introduced. We are accredited as a training provider within the Wholesale and Retail Sector Educational and Training Authority.

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;

Restoration of Grahamstown branch.

- home loan assistance;
- educational bursaries;
- medical aid assistance;
- a subsidised canteen at head office; and
- 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).

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; and
- the optimisation of fuel and oil consumption is monitored on a continuous basis. Particular attention is given to ensuring that vehicles operate efficiently and the amount of travel for delivery purposes is minimised.

There is also a commitment to our social heritage. The building of our Grahamstown property, which was designated as a national monument, was destroyed by fire. The company decided to restore the building to its original architectural style and structural design. We ensured that all the necessary restoration endeavours were in keeping with the original national monument.

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

governance

corporate governance

The directors endorse the principles of effective corporate governance and accept responsibility for ensuring that it is consistently practised 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).

Board

The Board comprises four independent non-executive directors and one executive director.

The Board is chaired by David Nurek, an independent non-executive director. The Chairman is responsible for providing leadership to the Board, overseeing its efficient operation and ensuring effective corporate governance.

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

- adoption of strategic plans;
- monitoring operational performance and management;
- 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.

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, credibility, the contribution they can make and attention they can devote to the role.

A self-evaluation of the Board's performance is undertaken annually. The first such evaluation was conducted in November 2005 and the results communicated to the Board.

Board 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 ongoing communication between the executive and non-executive directors outside of the formal meetings. The independent non-executive directors meet privately on a regular basis.

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.

A summary of the attendance at Board and committee meetings is set out on page 49.

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. All members of committees are non-executive directors.

Audit and Risk Committee

The Audit and Risk Committee is chaired by Hilton Saven. The committee consists of three independent non-executive directors, namely: Hilton Saven, David Nurek and Ben van der Ross, who replaced David Tyler on 29 August 2005. The directors are financially literate and suitably qualified to perform their roll.

The committee meets four times a year and 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 systems, evaluating and approving accounting policies and the financial information issued to the stakeholders in terms of International Financial Reporting Standards.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee is chaired by David Nurek, an independent non-executive director who is also the Chairman of the Board. The committee consists of four independent non-executive directors: David Nurek, Hilton Saven, Ben van der Ross and Professor Fatima Abrahams, who joined the committee effective 1 September 2005.

The Committee meets twice a year and 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. Newly-appointed directors are taken through an induction programme, outlining their fiduciary responsibilities and the necessary company and industry-specific background information.

It is group philosophy to remunerate management on a basis adequate to attract and retain executives of calibre. A significant portion of the executives' remuneration package is performance based.

Transformation Committee

A Transformation Committee has been formed, chaired by Professor Fatima Abrahams and includes David Nurek. The purpose of this committee is to progress broad-based empowerment within the group. The first meeting of this committee will be in the 2006/2007 financial year. It is envisaged that the committee will meet twice a year.

Executive Committee

The Chief Executive Officer, Alan Smart is responsible for formulating, implementing and maintaining strategic direction, 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 14 senior members of the executive team which includes the seven 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 for the Board.

Internal control and risk management

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 practicably 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 auditors' 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 biannual basis.

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 sets 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.

An anonymous 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 immediately and are precluded from voting at meetings on conflicting matters.

Share dealing

An insider trader policy exists. During closed periods or when in the opinion of the Chairman, there is price-sensitive information available which has not yet been publicly disclosed, 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.

	Board	Audit and Risk Committee	Remuneration and Nomination Committee
Number of meetings	4	4	2
Directors			
D M Nurek	4	4	2
A J Smart [4]	4	4	2
H Saven	4	4	2
D A Tyler [1]	1	1	–
B van der Ross [2]	3	2	2
F Abrahams [3]	2	nr	1

1. David Tyler resigned on 5 August 2005. He attended all Board and committee meetings until date of resignation.
2. Ben van der Ross joined the Audit and Risk Committee on 29 August 2005, the date of the second Audit and Risk Committee meeting.
3. Professor Fatima Abrahams was appointed to the Board and the Remuneration and Nomination Committee on 1 September 2005.
4. In terms of the respective charters, Alan Smart, in his capacity as Chief Executive Officer, is entitled to attend the meetings of the Audit and Risk and the Remuneration and Nomination Committees.

nr = not required

risk management

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 which 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 collectibility of these debts is influenced by:

- Social and economic trends

  Relevant factors include rising personal debt levels, unemployment levels and rising 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
  This consumer legislation governs the granting of credit and is scheduled for implementation on 1 June 2007.

  The National Credit Act should have a limited impact on credit management processes as the group has always been a responsible lender of credit and ensures that its customers are not over-extended.

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 13.7% of total purchases directly from foreign suppliers. The foreign exchange risk of imports is mitigated by using forward contracts.

HIV/AIDS

South Africa has one of the highest HIV/AIDS infection rates in the world. The impact of this pandemic on our customer base and staff is continually monitored.

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.

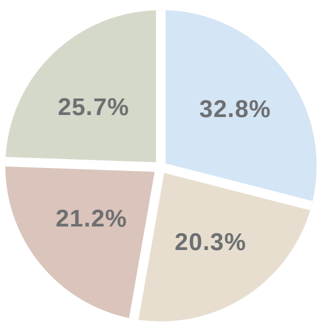
Investments

Monarch Insurance Company ("Monarch") is required to hold investments to support the 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 adviser, Sanlam Asset Management.

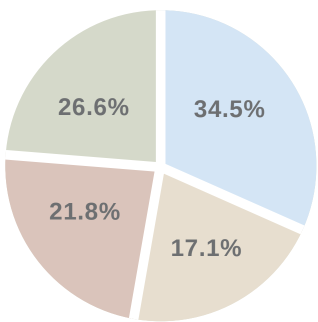
statement of
value added

	Group			
	2006 Rm	%	2005 Rm	%
Revenue	**2 874.5**		2 511.2	
Paid to suppliers for goods and services	**1 533.8**		1 333.7	
Value added by operating activities	**1 340.7**		1 177.5	
Distributed as follows:				
Remuneration to employees	**440.2**	32.8	406.0	34.5
Returns to providers of capital:	**271.7**	20.3	201.8	17.1
To provide lenders with a return on their capital utilised	**18.7**		54.8	
To provide lessors with a return for the use of their premises	**96.1**		86.0	
To provide shareholders with a return on their equity	**156.9**		61.0	
Taxes paid to governments	**284.6**	21.2	256.3	21.8
Income taxation	**278.6**		250.9	
Regional Service Council levies	**3.8**		3.5	
Municipal rates	**2.2**		1.9	
Reinvested in the Group	**344.2**	25.7	313.4	26.6
Depreciation and amortisation	**35.0**		36.9	
Deferred taxation	**(41.0)**		(68.5)	
Net earnings retained	**350.2**		345.0	
Total wealth distributed	**1 340.7**	100.0	1 177.5	100.00

distribution of value added 2006



distribution of value added 2005



renumeration paid to employees · returns to providers of capital · taxes paid to government · reinvested in group

five-year
review

	2006 Rm	2005 Rm (Normalised)	2004 Rm	2003 Rm (SA GAAP)	2002 Rm
Group Income Statements					
Revenue	**2 874.5**	2 511.2	2 274.7	2 037.9	1 995.8
Cost of sales	**(1 020.6)**	(885.0)	(919.6)	(813.5)	(779.1)
Operating costs	**(1 125.3)**	(1 032.7)	(849.5)	(795.1)	(855.6)
Operating profit before exceptional item	**728.6**	593.5	505.6	429.3	361.1
Exceptional item	**–**	–	–	47.9	–
Operating profit	**728.6**	593.5	505.6	477.2	361.1
Investment income	**28.9**	37.6	34.9	39.7	49.6
Profit before interest and taxes (EBITA)	**757.5**	631.1	540.5	516.9	410.7
Finance costs	**(12.8)**	(42.7)	(141.7)	(156.6)	(147.2)
Net profit before tax	**744.7**	588.4	398.8	360.3	263.5
Taxation	**(237.6)**	(182.4)	(111.5)	(108.2)	(71.2)
Normalised attributable profit	**507.1**	406.0	287.3	252.1	192.3
Normalised headline earnings	**510.4**	400.9	287.6	248.1	196.7
Group Balance Sheets					
Assets					
Non-current	**730.9**	608.8	257.4	289.9	279.4
Property, plant and equipment	**163.2**	159.5	115.4	117.5	105.7
Investments – insurance business	**478.0**	400.6	146.2	172.4	173.7
Deferred tax asset	**89.7**	48.7	–	–	–
Other	**–**	–	(4.2)	–	–
Current	**2 249.1**	2 066.9	2 562.5	2 256.9	2 286.9
Investments – insurance business	**111.9**	105.2	296.7	263.6	256.3
Inventories	**212.6**	155.8	155.3	120.2	132.8
Trade and other receivables	**1 896.5**	1 750.6	1 751.7	1 852.6	1 846.2
Cash and cash equivalents	**28.1**	55.3	358.8	20.5	45.6
Taxation	**–**	–	–	–	6.0
Total assets	**2 980.0**	2 675.7	2 819.9	2 546.8	2 566.3
Equity and Liabilities					
Capital and reserves	**2 305.4**	2 059.6	1 310.0	1 153.5	921.4
Non-current liabilities	**97.7**	86.1	747.9	1 162.2	1 255.6
Interest-bearing borrowings	**1.0**	1.7	683.8	1 016.4	1 112.4
Retirement benefits	**75.8**	72.4	36.0	33.7	26.1
Deferred taxation	**20.9**	12.0	28.1	112.1	117.1
Current liabilities	**576.9**	530.0	762.0	231.1	389.3
Trade and other payables	**283.5**	225.2	207.4	161.7	240.1
Current portion of interest-bearing borrowings	**0.8**	7.2	472.2	9.7	6.9
Short-term borrowings	**132.8**	172.0	–	36.7	142.3
Taxation	**159.8**	125.6	82.4	23.0	–
Total equity and liabilities	**2 980.0**	2 675.7	2 819.9	2 546.8	2 566.3

five-year
review... *continued*

	2006 Rm	2005 Rm (Normalised)	2004 Rm	2003 Rm (SA GAAP)	2002 Rm
Group Cash Flow Statements					
Cash generated from operations	**593.2**	625.2	508.9	428.7	257.4
Dividends and interest received	**41.3**	46.9	49.5	48.1	52.8
Interest paid	**(18.7)**	(319.9)	(18.9)	(267.3)	(26.5)
Tax paid	**(244.4)**	(207.7)	(99.2)	(90.5)	(68.9)
Net cash retained from operations	**371.4**	144.5	440.3	119.0	214.8
Cash utilised in investing activities	**(45.5)**	(53.0)	(59.0)	(44.8)	(48.6)
Net effect of financing activities	**(313.9)**	(567.0)	(6.3)	6.3	(5.0)
Net cash increase/(decrease) in cash and cash equivalents	**12.0**	(475.5)	375.0	80.5	161.2

	2006	2005	2004	2003	2002
Ratios and Statistics					
Returns					
Return on average shareholders' funds	**23.2%**	22.1%	24.8%	24.3%	23.7%
After-tax return on average capital employed	**22.1%**	18.5%	17.0%	16.4%	14.2%
After-tax return on average assets managed	**18.2%**	15.9%	14.4%	14.1%	12.2%
Margins					
Gross margin	**34.9%**	34.5%	33.6%	32.3%	34.0%
Normalised operating margin	**25.3%**	23.6%	22.2%	21.1%	18.1%
Productivity					
Number of stores	**490**	475	465	444	450
Revenue per store (R000's)	**5 866**	5 287	4 892	4 590	4 435
Normalised operating profit per store (R000's)	**1 487**	1 249	1 087	967	802
Average number of employees (permanent employees only)	**5 879**	5 713	5 571	5 513	5 561
Revenue per employee (R000's)	**489**	440	408	370	359
Normalised operating profit per employee (R000's)	**124**	104	91	78	65
Trading space (sqm)	**210 201**	207 595	205 793	197 580	200 250
Revenue per sqm (R)	**13 675**	12 097	11 053	10 314	9 967
Normalised operating profit per sqm (R)	**3 466**	2 859	2 457	2 173	1 803
Inventory turn (times)	**4.8**	5.7	5.1	5.8	5.0
Credit ratios					
Cash and short-term credit sales %	**29.9%**	30.1%	23.0%	18.2%	16.7%
Bad debts and impairment charge as a % of gross trade receivables	**4.0%**	3.8%	4.4%	6.4%	7.9%
Debtors impairment provision as a % of gross trade receivables	**12.6%**	14.4%	15.6%	10.2%	10.4%
Total debtors provisions as a % of gross trade receivables	**36.3%**	35.6%	35.0%	28.2%	28.3%
Decline rate %	**22.4%**	20.5%	22.3%	23.7%	21.3%
Average age of book (months)	**14.3**	14.8	15.4	16.3	16.4
Arrear % (full contractual)	**22.0%**	25.7%	27.3%	27.9%	26.9%

five-year review *... continued*

	2006	2005	2004	2003	2002
Solvency and liquidity					
Normalised financing cover (times)	**59.2**	14.8	3.8	3.3	2.8
Dividend cover	**2.25**	3.00	n/a	n/a	n/a
Gearing ratio (%)	**4.6%**	6.1%	60.9%	90.4%	132.0%
Current ratio (times)	**3.9**	3.9	3.4	9.8	5.9
Cash conversion ratio (%)	**81.4%**	105.3%	100.7%	89.8%	71.3%
Share performance					
Normalised earnings per share (cents)	**521.2**	406.0	287.3	252.1	192.3
Normalised headline earnings per share (cents)	**524.6**	400.9	287.6	248.1	196.7
Cash flow per share (cents)	**609.7**	625.2	508.9	428.7	257.4
Net book asset per share (cents)	**2 425.0**	2 059.6	1 310.0	1 153.5	921.4
Share price:					
Closing price	**61.60**	33.51	n/a	n/a	n/a
High	**62.97**	41.50	n/a	n/a	n/a
Low	**32.75**	28.20	n/a	n/a	n/a
Normalised price-earnings ratio	**11.8**	8.3	n/a	n/a	n/a
Dividends per share for the financial year (cents)	**225**	135	n/a	n/a	n/a
Number of shares in issue (million)	**100**	100	n/a	n/a	n/a
Volume of shares traded (million)	**156.1**	61.8	n/a	n/a	n/a
Value of shares traded (million)	**6 386.8**	2 139.5	n/a	n/a	n/a
Market capitalisation (million)	**6 160**	3 351	n/a	n/a	n/a
Number of shareholders	**2 331**	2 862	n/a	n/a	n/a

Explanatory notes:

1. All ratios are based on figures at the end of the year unless otherwise disclosed.
2. All amounts for the 2002 to 2004 financial years are in accordance with South African Generally Accepted Accounting Practice ("SA GAAP"). For 2005 and 2006 financial years, the results and financial position are determined in accordance with International Financial Reporting Standards, but exclude share-based payments (IFRS 2) arising from share awards and options granted at date of listing.
3. Where a ratio is referred to as normalised, the earnings in that ratio will exclude the share-based payment of R58.4 million (2005: R10.8 million).
4. No restatement of the prior year figures for the impact of AC 133 which was applied for the first time in the 2004 financial year was made. It has resulted in significant adjustments to the debtors impairment provision, carrying value of investments and opening shareholders' equity. All ratios using these items have, consequently, not been restated for the prior years.
5. The return on equity for the 2005 financial year has been restated to exclude the effect of the restructuring prior to the listing.
6. The solvency/liquidity ratios for 2004 and prior years 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 66 to 71.

Normalised Profit

Normalised profit is the profit attributable to shareholders determined in accordance with International Financial Reporting Standards, but excludes the effects of share-based payments (IFRS 2) in respect of share awards and options granted at the date of listing (refer pages 4 and 5). For 2004 and prior years, the profit is determined in accordance with South African Generally Accepted Accounting Practice.

Return on average shareholders equity

Normalised 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 normalised 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 normalised 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.

Normalised operating margin

Normalised operating profit before exceptional items as a percentage of revenue.

Inventory turn

Cost of merchandise sales divided by the closing inventory.

Average age of the debtors book

Trade receivables divided by the current year's credit revenue.

Normalised financing cover

Normalised 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.

Cash conversion ratio

Cash generated from operations divided by the normalised operating profit

Normalised earnings per share

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

Normalised headline earnings per share

Normalised 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.

Normalised price-earnings ratio

The closing price on the JSE Ltd divided by the normalised 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 declaration.

always

delivering ...

annual financial statements

directors'

responsibility statement

The annual financial statements have been prepared by management and conform with International Financial Reporting Standards ("IFRS") which has been adopted for the first time this year. Accordingly, comparatives have been restated in accordance with IFRS transitional arrangements.

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 2007 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 59.

The financial statements of the group and the company for the year ended 31 March 2006, which appear on pages 60 to 99 have 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
22 May 2006

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.

P B Croucher
Company Secretary

22 May 2006

report of the

independent auditors

TO THE MEMBERS OF LEWIS GROUP LIMITED

We have audited the annual financial statements of the group and company set out on pages 60 to 99 for the year ended 31 March 2006. These financial statements are the responsibility of the Company's directors. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the group and company at 31 March 2006 and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act in South Africa.

PricewaterhouseCoopers Inc

PricewaterhouseCoopers Inc
Registered Auditors

22 May 2006
Cape Town

directors' report

Nature of business

Lewis Group Limited is a holding company listed on the JSE Ltd, 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 402 Lewis and 72 Best Electric 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. Lifestyle Living has 16 stores which focuses on the upmarket segment of the furniture retailing market.

The nature of the business of the subsidiaries is set out on page 99.

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 62 to 99.

Segmental analysis

Information on segmental analysis is set out in note 32 to 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 the approval of the financial statements by the directors.

Share capital

The company's authorised and issued shares remain unchanged during the year.

Treasury shares

The group purchased 3 364 900 (3.36%) 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 5 August 2005. Refer note 8.2 for more detail.

The Lewis Employee Incentive Scheme Trust holds 1 565 512 shares, of which 724 250 are unallocated and 841 262 retained to cover options granted to executives. Details have been set out in notes 8 and 18.3 to the financial statements.

Dividends

The following dividends have been declared or proposed for the financial year ended 31 March 2006.

	Dividend per share	Date declared	Payable
Interim – declared	88 cents	14 November 2005	30 January 2006
Final – proposed	137 cents	22 May 2006	24 July 2006
For the year	225 cents		

Directors

David Nurek, Alan Smart, Hilton Saven and Ben van der Ross remained directors during the year. David Tyler did not make himself available for re-election at the annual general meeting on 5 August 2005. Professor Fatima Abrahams was appointed as a director on 1 September 2005.

In terms of the articles of association of the company, one-third of the Board is required to retire by rotation at each annual general meeting. Hilton Saven and Professor Fatima Abrahams will retire and have offered themselves for re-election.

Company Secretary

P B Croucher remained as Company Secretary throughout the year. The address of the Company Secretary is that of the registered offices as stated on the inside cover.

directors' report *... continued*

Directors' interests

At 31 March 2006, the directors' beneficial direct and indirect interest in the company's issued shares was as follows:

	2006 Direct	2006 Indirect
D M Nurek	–	10 000
H Saven	–	540
A J Smart	235 428	–
	235 428	10 540

	2005 Direct	2005 Indirect
D M Nurek	10 000	–
H Saven	–	–
A J Smart	–	–
	10 000	–

A J Smart is entitled to 219 428 options. Full details of the terms and conditions in relation to these options is set out in note 18.4 to the financial statements.

During the course of the year, no director had a material interest in any contract of significance with the company or any of its subsidiaries that could have given rise to a conflict of interest.

No related party transaction in terms of the JSE Ltd 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 18.4 to the financial statements.

Subsidiary companies

Details of the company's subsidiaries are set out on page 99.

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

	2006 Rm	2005 Rm
Profits	452.2	398.5
Losses	(0.2)	(0.9)

Borrowing powers

Borrowings were R134.6 million at 31 March 2006 (2005: R180.9 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.

Holding company and shareholders

GUS Holdings BV, which held 54% of the company's issued share capital at 31 March 2005, disposed of its remaining interest through a book-building exercise on 26 May 2005. As a consequence of this disposal, the shareholding of the company is widely held amongst institutions.

Special resolution

At the annual general meeting on 5 August 2005, 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 sheets

at 31 March 2006

	Notes	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
Assets					
Non-current assets					
Property, plant and equipment	3	**163.2**	159.5	**–**	–
Investments – insurance business	4	**478.0**	400.6	**–**	–
Deferred taxation	12	**89.7**	48.7	**–**	–
Interest in subsidiaries	5	**–**	–	**2 801.4**	2 802.1
		730.9	608.8	**2 801.4**	2 802.1
Current assets					
Investments – insurance business	4	**111.9**	105.2	**–**	–
Inventories	6	**212.6**	155.8	**–**	–
Trade and other receivables	7	**1 896.5**	1 750.6	**–**	–
Cash on hand and deposits		**28.1**	55.3	**–**	–
		2 249.1	2 066.9	**–**	–
Total assets		**2 980.0**	2 675.7	**2 801.4**	2 802.1
Equity and liabilities					
Capital and reserves					
Share capital and premium	8	**524.9**	676.9	**2 800.0**	2 800.0
Other reserves	9	**92.0**	52.3	**–**	–
Retained earnings	10	**1 688.5**	1 330.4	**0.1**	0.2
		2 305.4	2 059.6	**2 800.1**	2 800.2
Non-current liabilities					
Interest-bearing borrowings	11	**1.0**	1.7	**–**	–
Deferred taxation	12	**20.9**	12.0	**–**	–
Retirement benefits	13	**75.8**	72.4	**–**	–
		97.7	86.1	**–**	–
Current liabilities					
Trade and other payables	14	**283.5**	225.2	**1.3**	1.9
Taxation		**159.8**	125.6	**–**	–
Current portion of interest-bearing borrowings	11	**0.8**	7.2	**–**	–
Overdrafts and short-term interest-bearing borrowings	15	**132.8**	172.0	**–**	–
		576.9	530.0	**1.3**	1.9
Total equity and liabilities		**2 980.0**	2 675.7	**2 801.4**	2 802.1

income statements

for the year ended 31 March 2006

	Notes	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
Revenue		**2 874.5**	2 511.2	**–**	–
Merchandise sales		**1 567.8**	1 351.9	**–**	–
Finance charges earned		**674.4**	605.0	**–**	–
Insurance premiums earned	16	**400.4**	357.6	**–**	–
Services rendered		**231.9**	196.7	**–**	–
Cost of merchandise sales	17	**(1 020.6)**	(885.0)	**–**	–
Operating costs		**(1 183.7)**	(1 043.5)	**(3.3)**	(2.4)
Employment costs	18.1	**(439.9)**	(406.0)	**–**	–
Share-based payments	18.2	**(58.7)**	(10.8)	**–**	–
Administration and IT		**(152.3)**	(134.5)	**–**	–
Bad debts and impairment provision	19	**(115.5)**	(101.6)	**–**	–
Marketing		**(89.1)**	(79.6)	**–**	–
Occupancy costs		**(98.3)**	(87.9)	**–**	–
Transport and travel		**(98.4)**	(85.6)	**–**	–
Depreciation		**(35.0)**	(36.9)	**–**	–
Other operating costs		**(96.5)**	(100.6)	**(3.3)**	(2.4)
Operating profit	21	**670.2**	582.7	**(3.3)**	(2.4)
Investment income	22	**28.9**	37.6	**165.2**	63.6
Profit before finance costs		**699.1**	620.3	**161.9**	61.2
Interest received	23.2	**5.9**	12.1	**–**	–
Interest paid	23.1	**(18.7)**	(54.8)	**–**	–
Profit before taxation		**686.3**	577.6	**161.9**	61.2
Taxation	24	**(237.6)**	(182.4)	**–**	–
Net profit attributable to ordinary shareholders		**448.7**	395.2	**161.9**	61.2
Earnings per share (cents)	25	**461.2**	395.2		
Diluted earnings per share (cents)	25	**460.2**	395.2		
Dividends paid per share (cents)		**162.0**	61.0		
Dividends declared per share (cents)		**225.0**	135.0		

statements of changes in equity

for the year ended 31 March 2006

	Notes	Share capital and premium Rm	Other reserves Rm	Retained earnings Rm	Total Rm
Group					
Balance at 1 April 2004		**300.9**	**12.4**	**998.4**	**1 311.7**
Issue of shares		376.0	–	–	**376.0**
Net profit attributable to ordinary shareholders		–	–	395.2	**395.2**
Fair value adjustments of available-for-sale investments, net of tax		–	32.0	–	**32.0**
Disposal of available-for-sale investments recognised		–	(2.2)	–	**(2.2)**
Share-based payment		–	10.8	–	**10.8**
Transfer to contingency reserve		–	2.2	(2.2)	**–**
Foreign currency translation reserve movement		–	(2.9)	–	**(2.9)**
Dividends paid	26	–	–	(61.0)	**(61.0)**
Balance at 31 March 2005		**676.9**	**52.3**	**1 330.4**	**2 059.6**
Net profit attributable to ordinary shareholders		–	–	448.7	**448.7**
Fair value adjustments of available-for-sale investments, net of tax		–	61.4	–	**61.4**
Disposal of available-for-sale investments recognised		–	(4.8)	–	**(4.8)**
Available-for-sale asset impaired		–	12.3	–	**12.3**
Share-based payment		–	58.7	–	**58.7**
Transfer of share-based payment reserve to retained income on vesting		–	(69.2)	69.2	**–**
Cost of treasury shares acquired					
Share repurchase programme		(151.9)	–	–	**(151.9)**
Share trust		(0.3)	–	–	**(0.3)**
Cost of share awards to employees		0.2	–	(0.2)	**–**
Profit on sale of own shares		–	–	2.3	**2.3**
Transfer to contingency reserve		–	5.0	(5.0)	**–**
Foreign currency translation reserve movement		–	(23.7)	–	**(23.7)**
Dividends paid	26	–	–	(156.9)	**(156.9)**
Balance at 31 March 2006		**524.9**	**92.0**	**1 688.5**	**2 305.4**
Company					
Issue of shares	8	2 800.0	–	–	**2 800.0**
Net profit attributable to ordinary shareholders		–	–	61.2	**61.2**
Dividends paid	26	–	–	(61.0)	**(61.0)**
Balance at 31 March 2005		**2 800.0**	**–**	**0.2**	**2 800.2**
Net profit attributable to ordinary shareholders		–	–	161.9	**161.9**
Dividends paid	26	–	–	(162.0)	**(162.0)**
Balance at 31 March 2006		**2 800.0**	**–**	**0.1**	**2 800.1**

cash flow statements

for the year ended 31 March 2006

	Notes	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
Cash flow from operating activities					
Cash generated from operations	27.1	**593.2**	625.2	**(3.9)**	(0.5)
Dividends and interest received		**41.3**	46.9	**165.2**	63.6
Finance costs		**(18.7)**	(319.9)	**–**	–
Taxation paid	27.2	**(244.4)**	(207.7)	**–**	–
Cash retained from operating activities		**371.4**	144.5	**161.3**	63.1
Cash utilised in investing activities					
Net additions to insurance business investments		**(12.8)**	(23.7)	**–**	–
Loans to subsidiary companies		**–**	–	**0.7**	(2.1)
Acquisition of property, plant and equipment		**(39.8)**	(37.4)	**–**	–
Proceeds on disposal of property, plant and equipment		**7.1**	8.1	**–**	–
Net cash (outflow)/inflow from investing activities		**(45.5)**	(53.0)	**0.7**	(2.1)
Cash effects of financing activities					
Purchase of treasury shares		**(152.2)**	–	**–**	–
Dividends paid		**(156.9)**	(61.0)	**(162.0)**	(61.0)
Proceeds on sale of own shares		**2.3**	–	**–**	–
Amount owing to holding company		**–**	(500.0)	**–**	–
Finance lease liability		**(7.1)**	(6.0)	**–**	–
Net cash outflow from financing activities		**(313.9)**	(567.0)	**(162.0)**	(61.0)
Net increase/(decrease) in cash and cash equivalents		**12.0**	(475.5)	**–**	–
Cash and cash equivalents at the beginning of the year		**(116.7)**	358.8	**–**	–
Cash and cash equivalents at the end of the year	27.3	**(104.7)**	(116.7)	**–**	–

notes to the annual financial statements

for the year ended 31 March 2006

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. These are the group's first financial statements prepared in compliance with IFRS. In prior years, the financial statements were prepared in accordance with South African Statements of Generally Accepted Accounting Practice (SA GAAP).

Being a first time adopter of IFRS, the date of transition is 1 April 2004. The opening balance sheet on 1 April 2004 and the comparative information for 2005 have been restated. The effect of the adoption of IFRS has been fully detailed in annexure A entitled "Transition to International Financial Reporting Standards".

The relevant mandatory IFRS statements have been adopted for the current financial year. The following standards and interpretations, which have been issued but which are not yet effective, have not been applied in these financial statements:

IAS 19 amendment: Employee Benefits
IAS 21 amendment: Net Investment in Foreign Operations
IAS 39 amendment: Fair Value Option
IFRS 7 and IAS 1 (amendment): Financial Instruments – Capital Disclosures
IFRIC 8: Scope of IFRS 2

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.

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. Resultant exchange profits and losses are recognised in the income statement.

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. On disposal of a foreign subsidiary, such translation differences are recognised in the income statement as a gain or loss of 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 amortised cost.

1.4.2 Derivative instruments

Derivative instruments (forward exchange contracts) are utilised to hedge exposure to foreign currency fluctuations. 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 at the time of the investment 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 for the purpose of selling in the short term or the asset is specifically designated by management. These assets 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 classified as available-for-sale and 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 acquired with the intention to hold to maturity. Held-to-maturity investments are carried at amortised cost using the effective interest rate method.

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 at amortised cost using the effective interest rate, less a provision for impairment. The provision for impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the 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 1.4.2.

1.4.6 Set-off

Where there is 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, 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.

Subsequent expenditure is 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.

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.

notes to the annual financial statements *... continued*

for the year ended 31 March 2006

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 taxation is calculated at currently enacted rates of taxation. 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 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 insured contingencies that occurred before the close of the accounting period, but which had not been reported by that date.

1.11.2 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.

1.11.3 Provision for unearned premiums

The provision for unearned premiums represents that part of the current year's premiums relating to risk periods that extend to the subsequent years.

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 24 months but are classified as current as they form part of the normal operating cycle.

1.14 **Share capital**

Ordinary shares are classified as equity. 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.

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 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 health care 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 5th day after the month being reported on, unless such day falls on a Sunday, in which case it ends on the 4th day.

1.18 **Revenue recognition**

Revenue 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 time proportionate basis over the period of the contract, after an appropriate allowance is made for commission and reinsurance cost. Finance charges are recognised, on a sum-of-digits basis which closely approximates the effective yield basis, as instalments become due. Revenue from maintenance contracts is recognised over a 24-month period to ensure a reasonable profit margin. 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 to 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**

As a consequence of the former ultimate holding company, GUS plc disposing of its controlling interest in Lewis and the resulting vesting of share awards and options in terms of the rules of the scheme, a share-based payment charge of R58.4 million was incurred. The share-based payment was valued in terms of an option pricing model. Details of the option pricing model and the assumptions used are detailed in note 18.2.

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 13.

for the year ended 31 March 2006

		Land and buildings Rm	Leased equipment Rm	Vehicles & fixtures Rm	Total Rm
3	**Property, plant and equipment**				
	Group				
	As at 31 March 2006				
	Opening net carrying value	83.7	2.2	73.6	159.5
	Additions	0.5	–	39.3	39.8
	Disposals	–	–	(1.1)	(1.1)
	Depreciation	(0.7)	(1.8)	(32.5)	(35.0)
	Closing net carrying value	83.5	0.4	79.3	163.2
	Cost	86.6	67.6	251.2	405.4
	Accumulated depreciation	(3.1)	(67.2)	(171.9)	(242.2)
	As at 31 March 2005				
	Opening net carrying value	84.7	7.3	71.0	163.0
	Additions	1.2	–	36.2	37.4
	Disposals	(1.5)	(0.5)	(2.0)	(4.0)
	Depreciation	(0.7)	(4.6)	(31.6)	(36.9)
	Closing net carrying value	83.7	2.2	73.6	159.5
	Cost	86.1	67.6	226.5	380.2
	Accumulated depreciation	(2.4)	(65.4)	(152.9)	(220.7)

Computer equipment, with a carrying value of R0.4 million (2005: R2.2 million) acts as security for finance lease liabilities – refer capitalised finance lease liabilities note 11.

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

notes to the annual financial statements ... continued

for the year ended 31 March 2006

		Group		Company	
		2006 Rm	2005 Rm	**2006 Rm**	2005 Rm
4	**Investments – insurance business**				
	Carrying value and market value				
	Listed investments				
	Listed shares – available-for-sale	**159.4**	115.1		
	Investment policy – available-for-sale	**64.0**	56.5		
	Gilts – available-for-sale	**254.6**	229.0		
	Unlisted Investments				
	Money market – held-to-maturity (at director's valuation)	**111.9**	105.2		
		589.9	505.8		
	Analysed as follows				
	Long term	**478.0**	400.6		
	Short term	**111.9**	105.2		
		589.9	505.8		
	Movement for the year				
	Beginning of the year	**505.8**	442.9		
	Net additions to investments	**18.6**	26.5		
	Movement in fair value transferred to equity	**65.5**	36.4		
	End of the year	**589.9**	505.8		
	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 28. Regular purchases and sales of financial assets are accounted for on the trade date.				
5	**Interest in subsidiaries**				
	Shares at cost	**–**	–	**2 800.0**	2 800.0
	Indebtedness	**–**	–	**1.4**	2.1
		–	–	**2 801.4**	2 802.1
	Details of investments in and indebtedness by subsidiaries is given in Annexure B.				
6	**Inventories**				
	Cost of merchandise	**233.2**	171.7		
	Less: provision for obsolescence	**(20.6)**	(15.9)		
		212.6	155.8		

for the year ended 31 March 2006

		Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
7	**Trade and other receivables**				
	Instalment sale and loan receivables	**2 921.4**	2 677.1		
	Provision for unearned finance charges and unearned maintenance income	**(508.0)**	(414.4)		
	Provision for impairment	**(368.0)**	(385.4)		
	Provision for unearned insurance premiums	**(184.8)**	(154.4)		
	Unearned insurance premiums	**(300.9)**	(254.9)		
	Less: re-insurer's share of unearned premiums	**116.1**	100.5		
	Net instalment sale and loan receivables	**1 860.6**	1 722.9		
	Other receivables	**35.9**	27.7		
		1 896.5	1 750.6		
	Amounts due from instalment sale and loan receivables after 1 year are reflected as current, as they form part of the normal operating cycle. The credit terms of instalment sale and loan receivables range from 6 to 24 months.				
8	**Share capital and premium**				
8.1	**Authorised**				
	150 000 000 ordinary shares of 1c each	**1.0**	1.0	**1.5**	1.5
8.2	**Issued**				
	100 000 000 ordinary shares of 1c each	**0.9**	0.9	**1.0**	1.0
	Share premium	**676.0**	676.0	**2 799.0**	2 799.0
		676.9	676.9	**2 800.0**	2 800.0
	Treasury shares:				
	Lewis Stores (Pty) Ltd	**(151.9)**	–	**–**	–
	Lewis Employee Share Incentive Scheme Trust	**(0.1)**	–	**–**	–
	Total share capital and premium	**524.9**	676.9	**2 800.0**	2 800.0
	Lewis Stores (Pty) Ltd acquired shares on the open market in terms of the authority granted by shareholders at the annual general meeting held on 5 August 2005. The average price paid for these shares was R44.86, with the lowest price being R41.75 and the highest R55.80.				
		000's	000's	**000's**	000's
8.3	**Number of ordinary shares in issue**				
	Number of shares issued	**100 000**	100 000		
	Treasury shares held by:				
	Lewis Stores (Pty) Ltd	**(3 365)**	–		
	Lewis Employee Share Incentive Scheme Trust	**(1 566)**	–		
	Number of shares in issue	**95 069**	100 000		

notes to the annual financial statements *... continued*

for the year ended 31 March 2006

		Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
9	**Other reserves**				
	Comprising:				
	Fair value reserve	**89.5**	20.6		
	Foreign currency translation reserve	**(26.6)**	(2.9)		
	Share-based payment reserve	**0.3**	10.8		
	Other	**0.8**	0.8		
		64.0	29.3		
	Statutory insurance contingency reserve	**28.0**	23.0		
		92.0	52.3		
	Detailed movements in the other reserves are disclosed in the statement of changes in equity.				
10	**Retained Earnings**				
	Comprising:				
	Company	**0.1**	0.2	**0.1**	0.2
	Consolidated subsidiaries	**1 688.4**	1 330.2	**–**	–
		1 688.5	1 330.4	**0.1**	0.2
	Distribution by certain foreign subsidiaries will give rise to withholding taxes of R20.4 million (2005: R34.8 million). No provision is raised until dividends are declared.				
11	**Interest-bearing borrowings**				
	Capitalised finance leases secured by computer equipment with a net book value of R0.4 million (2005: R2.2 million), bearing interest at rates linked to prime, repayable annually over periods of 2 years	**1.8**	8.9		
	Current portion of capitalised finance lease	**(0.8)**	(7.2)		
		1.0	1.7		
	Total interest-bearing borrowings	**1.8**	8.9		
	Long-term portion of interest-bearing borrowings	**1.0**	1.7		
	Current portion of interest-bearing borrowings	**0.8**	7.2		

notes to the annual financial statements ... *continued*

for the year ended 31 March 2006

		Group		Company	
		2006	2005	**2006**	2005
		Rm	Rm	**Rm**	Rm
12	**Deferred taxation**				
	Balance at the beginning of the year	**(36.7)**	25.2		
	Movement for the year attributable to:				
	Income statement credit	**(41.0)**	(68.5)		
	Deferred tax on fair value adjustment in equity	**8.9**	6.6		
	Balance at the end of the year	**(68.8)**	(36.7)		
	This balance comprises:				
	Capital allowances	**35.9**	27.7		
	Debtors allowances	**(68.5)**	(30.0)		
	Income and expense recognition	**1.7**	0.2		
	Other provisions	**(37.9)**	(34.6)		
	Balance at the end of the year	**(68.8)**	(36.7)		
	Disclosed as:				
	Deferred tax asset	**(89.7)**	(48.7)		
	Deferred tax liability	**20.9**	12.0		
		(68.8)	(36.7)		
13	**Retirement benefits**				
	Amounts recognised in the balance sheet				
	Defined benefit retirement plan liability	**34.6**	37.7		
	Post-retirement healthcare benefits	**41.2**	34.7		
		75.8	72.4		

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.

notes to the annual financial statements *... continued*

for the year ended 31 March 2006

		Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
13	**Retirement benefits** *continued*				
	The number of employees on these plans are as follows:				

Fund	No of staff
Lewis Stores Group Pension Fund	**361**
Lewis Stores Retirement Pension Fund	**25**
SACCAWU Provident Fund	**595**
Lewis Stores Provident Fund	**2 764**
Lewis Stores Namibia Provident Fund	**102**

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 IAS19 using the projected unit credit method. The latest valuation was carried out as at 1 January 2006.

	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
Amounts recognised in the balance sheet				
Present value of obligations	**269.9**	242.5		
Fair value of plan assets	**(252.2)**	(213.6)		
	17.7	28.9		
Unrecognised actuarial gains	**16.9**	8.8		
Defined benefit retirement plan liability	**34.6**	37.7		
Amounts recognised in the income statement				
Current service cost	**8.9**	9.2		
Interest cost	**21.4**	20.1		
Expected return on plan assets	**(20.0)**	(17.5)		
Net actuarial losses recognised in the year	**2.3**	–		
Total included in staff costs	**12.6**	11.8		
Movement in retirement benefit liability				
Present value at the beginning of the year	**37.7**	44.2		
Income statement charge	**12.6**	11.8		
Contributions paid during the year	**(15.7)**	(18.3)		
Present value at the end of the year	**34.6**	37.7		

for the year ended 31 March 2006

		Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
13	**Retirement benefits** *continued*				
	Principal actuarial assumptions used were as follows:				
	Discount rate	**7.5%**	9.0%		
	Expected return on plan assets	**9.0%**	9.5%		
	Inflation rate	**4.5%**	6.0%		
	Future salary increases	**5.5%**	7.0%		
	Future pension increases	**4.5%**	6.0%		
	Actual return on plan assets	**14.8%**	10.3%		
	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	**14.7**	13.5		
	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 2006 by a qualified actuary in accordance with the requirements of IAS19. The group has a commitment to meet these unfunded benefits.				
	Amounts recognised in the income statement				
	Current service cost	**0.6**	0.7		
	Interest cost	**2.6**	2.4		
	Actuarial loss	**5.4**	2.5		
	Income statement charge	**8.6**	5.6		
	Defined benefit plans				
	Movement in post-retirement healthcare liability				
	Present value of liability at the beginning of the year	**34.7**	31.0		
	Charged to income statement	**8.6**	5.6		
	Employer benefit payments	**(2.1)**	(1.9)		
	Post-retirement healthcare benefits liability	**41.2**	34.7		
	Principal actuarial assumptions used were as follows:				
	Health care inflation rate	**4.5%**	4.0%		
	CPI inflation	**4.5%**	4.0%		
	Discount rate	**7.5%**	8.5%		
	Average retirement age (years)	**63**	63		

notes to the annual financial statements *... continued*

for the year ended 31 March 2006

		Group		Company	
		2006	2005	**2006**	2005
		Rm	Rm	**Rm**	Rm
14	**Trade and other payables**				
	Trade payables	**110.2**	74.9	**–**	–
	Accruals and other payables	**83.2**	72.8	**1.3**	1.9
	Due to reinsurers	**66.9**	57.9	**–**	–
	Insurance provisions	**23.2**	19.6	**–**	–
		283.5	225.2	**1.3**	1.9
15	**Overdrafts and short-term interest-bearing borrowings**				
	These borrowings are unsecured. The average closing interest rate on these borrowings was 7.2%	**132.8**	172.0		
		132.8	172.0		
16	**Insurance premiums earned**				
	Gross insurance income	**566.1**	501.0		
	Reinsurance premiums	**(165.7)**	(143.4)		
		400.4	357.6		
17	**Cost of merchandise sales**				
	Purchases	**1 077.4**	889.3		
	Movement in inventory	**(56.8)**	(4.3)		
	Cost of merchandise sales	**1 020.6**	885.0		
	Merchandise gross profit	**547.2**	466.9		
18	**Directors and employees**				
18.1	**Employment costs**				
	Salaries, wages, commissions and bonuses	**398.3**	371.8		
	Retirement benefit costs	**35.9**	30.9		
	Other employment costs	**5.7**	3.3		
		439.9	406.0		

notes to the annual financial statements *... continued*

for the year ended 31 March 2006

		Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
18	**Directors and employees** *continued*				
18.2	**Share-based payments**				
	As the fair value of the services received cannot be measured reliably, the services have been valued by reference to the fair value of shares and options granted. The fair value of such shares and options are measured at the grant date using the Black-Scholes model.				
	On 26 May 2005, the former ultimate holding company GUS plc indirectly sold its controlling interest in the Lewis Group. This sale resulted in a change in control and in terms of the scheme rules, the awards and options vested immediately. The share price at the date of vesting was R34.				
	In terms of IFRS 2, notwithstanding that the awards and options were granted at no cost to Lewis by GUS group, share-based payments are required to be expensed over the vesting period. Any accelerated vesting of the awards and options requires immediate recognition of the unrecognised portion.				
	Value of services provided:				
	Charge relating to grants made at date of listing	**58.4**	10.8		
	– in respect of unvested share awards and options	**1.5**	10.8		
	– vesting of share awards and options resulting from the disposal of its controlling interest by GUS group on 26 May 2005	**56.9**	–		
	Options granted subsequent to 26 May 2005	**0.3**	–		
	Total share-based payment	**58.7**	10.8		
		R	R		
	Significant assumptions used were:				
	Weighted average share price	**41.64**	29.85		
	Weighted average exercise price (for options only)	**41.60**	28.00		
	Weighted average expected volatility	**28.0%**	28.3%		
	Weighted average expected dividend yield	**3.6%**	3.9%		
	Weighted average risk-free rate (bond yield curve at date of grant)	**7.9%**	8.8%		
	The expected volatility for the share awards and options granted at the date of listing was based on a weighted average of the volatilities of similar listed entities. The volatilities for the options granted subsequent to 26 May 2005 were based on the volatility of Lewis's share price from the date of listing to the date of granting the option.				

notes to the annual financial statements *... continued*

for the year ended 31 March 2006

		Group		Company	
		2006	2005	**2006**	2005
18	**Directors and employees** *continued*				
18.3	**Share incentive schemes**				
	The employee share incentive schemes are in operation for employees, executives and directors holding salaried employment office. The aggregate number of shares which may be utilised for these schemes shall not exceed 10% of the issued share capital of the company.				
	Employees receive their share awards and options if they have been in continued employment with the group until the vesting date. Share awards vest between 2 and 5 years of grant date. In respect of options, these vest between 3 and 5 years and must be exercised within 10 years after been granted. In terms of the scheme's rules, the share awards and options vest immediately, should there be a change in control.				
	The GUS group made available 4% of its shareholding in the group for no consideration in order to meet the commitment of the share incentive schemes to deliver to the participants as a result of the immediate vesting of the share awards and options as a consequence of the disposal of their controlling interest.				
		No. of shares and options			
	Lewis All Employee Share Scheme				
	Beginning of year	**1 101 254**	–		
	Granted	**1 888**	1 196 379		
	Forfeited	**(51 825)**	(95 125)		
	Vested	**(1 051 317)**	–		
	End of year	**–**	1 101 254		
	Lewis Executive IPO Restricted Share Scheme				
	Beginning of year	**1 326 448**	–		
	Granted	**5 714**	1 379 334		
	Forfeited	**(32 702)**	(52 886)		
	Vested	**(1 299 460)**	–		
	End of year	**–**	1 326 448		

		Group 2006	Group 2005	Company 2006	Company 2005
		No. of shares and options			
18	**Directors and employees** *continued*				
18.3	**Share incentive schemes** *continued*				
	Lewis Executive Share Option Scheme				
	Beginning of year	**807 829**	–		
	Granted	**188 276**	822 850		
	Forfeited	**(71 132)**	(15 021)		
	Exercised by payment of consideration	**(83 711)**	–		
	End of year	**841 262**	807 829		
		R	R	**R**	R
	Average exercise price of outstanding options				
	Options granted in 2005	**28.00**	28.00		
	Options granted in 2006	**41.60**	–		
18.4	**Directors' emoluments**				
	Non-executive directors				
	Fees as directors				
	D M Nurek			**225 000**	160 000
	H Saven			**215 000**	128 000
	B van der Ross			**130 000**	89 000
	F Abrahams			**67 000**	–
	D Tyler (payable to GUS Holdings BV)			**43 500**	97 000
	Executive director – A J Smart (paid by subsidiary)			**3 555 550**	3 362 747
	Salary			**1 690 000**	1 536 000
	Bonuses			**1 444 670**	1 436 000
	Contributions to pension scheme			**270 400**	245 760
	Contribution to medical aid			**32 736**	30 939
	Other material benefits			**117 744**	114 048

Share awards and options granted

A J Smart was awarded 219 428 free shares and 219 428 options with an exercise price of R28 on 4 October 2004. These were due to vest evenly in 3, 4 and 5 years from the date of the award. As a consequence of the disposal of its controlling interest by the former holding company, the share awards and options vested immediately. A J Smart agreed in terms of a written undertaking not to dispose of any shares he may become entitled to under these awards prior to 1 October 2007.

notes to the annual financial statements ... continued

for the year ended 31 March 2006

		Group		Company	
		2006	2005	**2006**	2005
		Rm	Rm	**Rm**	Rm
19	**Bad debts and impairment provision**				
	Bad debts, bad debt recoveries and repossession losses	**132.9**	125.3		
	Movement in impairment provision	**(17.4)**	(23.7)		
		115.5	101.6		
20	**Lease commitments**				
	The group leases the majority of its properties under operating leases. The lease agreements of certain store premises provide for a minimum annual rental payment and additional payments determined on the basis of turnover.				
	Payments on a cash flow basis:	**175.7**	167.6		
	Within one year	**63.9**	67.2		
	Two to five years	**109.6**	99.5		
	Over five years	**2.2**	0.9		
	Payments on a straight-line basis:	**169.4**	158.7		
	Within one year	**64.0**	64.8		
	Two to five years	**103.5**	93.1		
	Over five years	**1.9**	0.8		
21	**Operating profit is stated after**				
	Surplus on disposal of property, plant and equipment	**6.0**	4.1		
	Depreciation				
	Owned assets	**33.2**	32.3		
	Leased assets	**1.8**	4.6		
		35.0	36.9		
	Fees payable:				
	Investment management fee – insurance investments	**1.4**	1.2		
	Outsourcing of IT function	**24.4**	22.9		
		25.8	24.1		
	Operating leases – premises				
	Operating lease payments on a cash flow basis	**80.9**	72.0		
	Lease adjustment	**(2.5)**	(1.3)		
	Operating leases on a straight-line basis	**78.4**	70.7		
	Auditors' remuneration				
	Audit fees – current year	**1.0**	0.8	**0.1**	0.1
	– prior year under provision	**0.1**	0.1	**–**	–
	Other services	**0.7**	0.7	**–**	–
		1.8	1.6	**0.1**	0.1

notes to the annual financial statements *... continued*

for the year ended 31 March 2006

		Group		Company	
		2006 Rm	2005 Rm	**2006 Rm**	2005 Rm
22	**Investment income**				
	Interest – insurance business	**30.8**	31.3	**–**	–
	Dividends from listed investments – insurance business	**4.6**	3.5	**–**	–
	Realised profit on disposal of insurance investments	**5.8**	2.8	**–**	–
	Impairment of available-for-sale investments	**(12.3)**	–	**–**	–
	Dividends – unlisted subsidiaries	**–**	–	**165.2**	63.6
		28.9	37.6	**165.2**	63.6
23	**Net finance costs**				
23.1	**Interest paid**				
	Capitalised finance leases	**0.2**	0.9		
	Fellow subsidiary	**–**	32.8		
	Bank loans, overdrafts and other	**12.5**	16.9		
	Forward exchange contracts	**6.0**	4.2		
		18.7	54.8		
23.2	**Interest earned**				
	Bank	**5.9**	12.0		
	Other	**–**	0.1		
		5.9	12.1		
		12.8	42.7		
24	**Taxation**				
24.1	**Taxation charge**				
	South Africa	**224.2**	170.7		
	Foreign	**13.4**	11.7		
	Taxation per income statement	**237.6**	182.4		
	Comprising:				
	Normal taxation				
	Current year	**261.1**	215.8		
	Prior year	**(2.2)**	29.2		
	Deferred taxation				
	Current year	**(42.0)**	(39.6)		
	Prior year	**(0.8)**	(28.9)		
	Rate change	**1.8**	–		
	Secondary Tax on Companies	**19.7**	5.9		
	Taxation per income statement	**237.6**	182.4		

notes to the annual financial statements *... continued*

for the year ended 31 March 2006

		Group		Company	
		2006 Rm	2005 Rm	**2006 Rm**	2005 Rm
24	**Taxation** *continued*				
24.2	**The rate of taxation on profit is reconciled as follows:**				
	Profit before taxation	**686.3**	577.6	**161.9**	61.2
	Taxation calculated at a tax rate of 29% (2005: 30%)	**199.0**	173.4	**47.0**	18.4
	Disallowed expenditure / (exempt income)	**20.1**	2.8	**(47.0)**	(18.4)
	Secondary Tax on Companies	**19.7**	5.9	**–**	–
	Prior years	**(3.0)**	0.3	**–**	–
	Rate change	**1.8**	–	**–**	–
	Taxation per income statement	**237.6**	182.4	**–**	–
	Effective taxation rate	**34.6%**	31.6%	**–**	–
25	**Earnings per share**				
25.1	**Weighted average number of shares**	**000's**	000's		
	Weighted average shares for earnings and headline earnings per share	**97 300**	100 000		
	Dilution resulting from options outstanding	**201**	–		
	Weighted average shares for diluted earnings and headline earnings per share	**97 501**	100 000		
	Diluted earnings and headline earnings per share is calculated by adjusting the weighted average number of ordinary shares assuming that all share options will be exercised. The dilution is determined by the number of shares that could have been acquired at fair value (determined as the average annual market price of the shares) less the number of shares that would be issued on the exercise of all the share options.				
25.2	**Headline earnings**	**Rm**	Rm		
	Attributable earnings	**448.7**	395.2		
	Profit on disposal of property, plant and equipment	**(6.0)**	(3.9)		
	Profit on disposal of available-for-sale investments	**(5.8)**	(2.8)		
	Impairment of available-for-sale investments	**12.3**	–		
	Taxation	**2.8**	1.6		
	Headline earnings	**452.0**	390.1		

notes to the annual financial statements *... continued*

for the year ended 31 March 2006

		Group		Company	
		2006 Cents	2005 Cents	**2006 Cents**	2005 Cents
25	**Earning per share** *continued*				
25.3	**Earnings per share**				
	Earnings per share	**461.2**	395.2		
	Fully diluted earnings per share	**460.2**	395.2		
25.4	**Headline earnings per share**				
	Headline earnings per share	**464.5**	390.1		
	Fully diluted headline earnings per share	**463.6**	390.1		
26	**Dividends paid**	**Rm**	Rm	**Rm**	Rm
	Dividend no.1 declared on 15 November 2004 and paid on 31 January 2005	–	61.0	**–**	61.0
	Dividend no.2 declared on 16 May 2005 and paid on 25 July 2005	**74.0**	–	**74.0**	–
	Dividend no.3 declared on 14 November 2005 and paid on 30 January 2006	**88.0**	–	**88.0**	–
	Dividends received on treasury shares:				
	Lewis Stores (Pty) Ltd	**(2.5)**	–	**–**	–
	Lewis Employee Share Incentive Scheme Trust	**(2.6)**	–	**–**	–
		156.9	61.0	**162.0**	61.0
27	**Notes to the cash flow statements**				
27.1	**Cash generated from operations**				
	Operating profit	**670.2**	582.7	**(3.3)**	(2.4)
	Adjusted for:				
	Share-based payments	**58.7**	10.8	**–**	–
	Depreciation and amortisation	**35.0**	36.9	**–**	–
	Surplus on disposal of property, plant and equipment	**(6.0)**	(3.9)	**–**	–
	Movement in debtors impairment provision	**(17.4)**	(23.7)	**–**	–
	Movement in retirement benefits provision	**3.4**	(2.8)	**–**	–
	Movement in other provisions	**9.8**	10.7	**–**	–
	Changes in working capital:				
	Increase in inventories	**(62.0)**	(5.5)	**–**	–
	(Increase)/decrease in trade and other receivables	**(152.2)**	21.9	**–**	–
	Increase/(decrease) in trade and other payables	**53.7**	(1.9)	**(0.6)**	1.9
		593.2	625.2	**(3.9)**	(0.5)

notes to the annual financial statements *... continued*

for the year ended 31 March 2006

		Group		Company	
		2006	2005	**2006**	2005
		Rm	Rm	**Rm**	Rm
27	**Notes to the cash flow statements** *continued*				
27.2	**Taxation paid**				
	Amount owing at the beginning of the year	**(125.6)**	(82.4)		
	Amount charged to the income statement	**(237.6)**	(182.4)		
	Adjustment for deferred taxation	**(41.0)**	(68.5)		
	Amount owing at the end of the year	**159.8**	125.6		
		(244.4)	(207.7)		
27.3	**Cash and cash equivalents**				
	Cash deposits and cash on hand	**28.1**	55.3		
	Overdrafts and short-term interest-bearing borrowings	**(132.8)**	(172.0)		
	Cash and cash equivalents	**(104.7)**	(116.7)		

28 **Financial risk management**

Executive management meets regularly to assess the group's currency, credit and interest rate exposure and to decide on strategies for managing the risk. The manner in which the risks are to be managed on a daily basis and limits imposed on management in so doing are set out in a treasury policy which is reassessed and updated at these meetings.

28.1 **Credit risk management**

Financial assets, which potentially subject the group to a concentration of credit risk, consist principally of cash at bank, investments and trade receivables. Cash at bank and short-term deposits are placed with high quality financial institutions and South African investments are limited to a maximum of 5% in any one publicly traded security. Trade receivables comprise a large, widespread customer base which is subject to continual and ongoing credit evaluations to determine the level of impairment. The granting of credit is controlled by sophisticated and well-developed application and behavioural scoring models which are continually refined and updated. There are no significant concentrations of credit risk which have not been provided for.

28.2 **Interest rate risk management**

Interest rate risk on interest-bearing instruments are managed by an independent asset management company in terms of a regularly updated mandate. As part of the process of managing the fixed and floating rate interest-bearing debt and cash and cash equivalents, the interest rate characteristics of new and the refinancing of existing loans are positioned according to the expected movements in interest rates.

for the year ended 31 March 2006

	Term of investment	Average closing effective interest rate %	Floating or fixed	Carrying value Rm
28 **Financial risk management** *continued*				
28.2 **Interest rate risk management** *continued*				
2006				
Assets				
Gross instalment sale and loan receivables	**Up to 2 years**	**28.3%**	**Fixed**	**2 921.4**
Liabilities				
Finance leases	**3 years**	**7.0%**	**Floating**	**1.8**
Overdrafts and short-term borrowings	**Varies (refer note 15)**	**7.2%**	**Floating**	**132.8**
2005				
Assets				
Gross instalment sale and loan receivables	Up to 2 years	27.0%	Fixed	2 677.1
Liabilities				
Finance leases	3 years	8.0%	Floating	8.9
Overdrafts and short-term borrowings	Varies (refer note 15)	8.2%	Floating	172.0

28.3 **Foreign exchange risk management**

During the year, 13.7% (2005: 8.0%) of the purchases were in foreign denominated currencies. Forward exchange contracts are entered into to manage foreign exchange exposure. Below is a summary of the amounts payable under forward contracts.

	Term	Rate	Foreign currency FCm	Rand equivalent Rm	Fair value (gain)/loss Rm
2006					
US dollar	**Less than 9 months**	**Rates vary from R6.08 to R6.48**	**10.3**	**64.1**	**2.0**
2005					
US dollar	Less than 4 months	Rates vary from R6.13 to R6.18	1.3	8.2	0.1

Apart from the Linked Policy Investment, there was no uncovered exposure to foreign denominated currencies at year-end. The underlying value of the linked policy is determined in US dollar and this foreign currency exposure is uncovered. Refer note 28.6.

28 **Financial risk management** *continued*

28.3 **Foreign exchange risk management** *continued*

Net investment in foreign entities

The currency exposure is limited to the net investment in Botswana of R80.4 million (2005: R94.2 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.

28.4 **Liquidity risk**

	2006 Rm	2005 Rm
Total banking facilities	**900.0**	900.0
Less: drawn portion of facility	**(132.8)**	(172.0)
Plus: cash on hand	**28.1**	55.3
Available cash resources and facilities	**795.3**	783.3

Prudent liquidity management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Group treasury aims to maintain flexibility in funding by keeping committed credit lines available.

28.5 **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 3 months subsequent to the sale.

The risk under any one 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 an insurance contract, this risk is random and therefore unpredictable.

28 **Financial risk management** *continued*

28.5 **Insurance risk** *continued*

The principle 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 re-insurance arrangement has been entered into by Monarch to facilitate the transfer of 40% of the risk under these policies to an external re-insurer. Catastrophe cover has been placed with third-party insurers and re-insurers 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 risks, 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		Company	
	2006 Rm	2005 Rm	**2006 Rm**	2005 Rm
Movement in provisions:				
(i) Unearned premium reserve				
Opening balance	**154.4**	140.4		
Movement during year	**30.4**	14.0		
Closing balance	**184.8**	154.4		
(ii) Insurance provisions				
Opening balance	**19.6**	18.1		
Movement during year	**3.6**	1.5		
Closing balance	**23.2**	19.6		
Insurance provisions include outstanding claims and IBNR reserve.				

for the year ended 31 March 2006

	Average closing rate of interest %	0-12 months	2-5 years	>5 years	Total
28 **Financial risk management** *continued*					
28.6 **Maturity profile of financial instruments**					
The maturity profiles of financial instruments at 31 March 2006 are as follows:					
Assets					
Available-for-sale insurance investments		–	318.6	159.4	478.0
Held-to-maturity insurance investments	7.1%	111.9	–	–	111.9
Trade and other receivables **	28.3%	1 896.5	–	–	1 896.5
Cash on hand and deposits	6.2%	28.1	–	–	28.1
Liabilities					
Interest-bearing borrowings	7.0%	(0.8)	(1.0)	–	(1.8)
Bank overdrafts and short-term borrowings	7.2%	(132.8)	–	–	(132.8)
Trade and other payables		(283.5)	–	–	(283.5)
		1 619.4	317.6	159.4	2 096.4

** Amounts due from instalment sale receivables after 1 year are reflected as current, as they form part of the normal operating cycle. The credit terms of instalment sale receivables range from 6 – 24 months.

On 31 March 2006 the carrying amounts of other receivables, bank balances and cash on hand, trade and other payables and overdraft and short-term borrowings approximate their fair values due to the short-term maturity of the assets and liabilities.

Included in "Cash on hand and deposits" are bank balances held in foreign currency (Pula) amounting to R18.2 million (2005: R47.7 million).

Included in "Available-for-sale investments" is a linked investment policy with Sanlam Life Insurance Limited made by Monarch Insurance Company Limited, the group's insurance subsidiary. The underlying value of the policy is determined in US dollars with reference to the original investment and a growth in a basket of international indices. The underlying indices are 65% foreign equity and 35% government bonds and the policy carries both a R68 million and US dollars 10.4 million capital guarantee effective if the investment is held to 6 November 2007.

notes to the annual financial statements *... continued*

for the year ended 31 March 2006

		Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
29	**Related party information**				
	The group, in the ordinary course of business, enters into transactions with related parties. These transactions occur on terms no more favourable than those entered into with third parties in arm's length transactions.				
29.1	**Dealings with executives**				
	Remuneration of executives	**12.2**	10.3		
	Salary	**6.2**	5.3		
	Bonus	**4.3**	3.5		
	Contributions to pension fund	**1.0**	0.9		
	Contributions to medical aid	**0.3**	0.2		
	Other benefits	**0.4**	0.4		
	Key executives comprise the directors of Lewis Stores (Pty) Ltd, the main operating subsidiary.				
29.2	**Amounts attributable to transactions with related entities**				
	Income				
	Re-insurance commission received from: common-controlled entity				
	(Commission arising from the re-insurance business written)	**–**	41.1		
	IPO fee recovery	**–**	13.7		
	Expenses				
	Interest paid to: common-controlled entity	**–**	32.8		
30	**Contingencies**				
	Bank and other guarantees given by the group to third parties	**7.5**	5.1		
	The directors are of the opinion that no loss will be incurred on these guarantees.				
31	**Capital Commitments**				
	There were no material capital commitments contracted for or authorised and contracted at the end of the year under review (2005 – Rnil).				

notes to the annual financial statements *... continued*

for the year ended 31 March 2006

		2006			2005		
		Merchandise	**Insurance**	**Group**	Merchandise	Insurance	Group
		Rm	**Rm**	**Rm**	Rm	Rm	Rm
32	**Segmental reporting**						
32.1	**By business unit**						
	Revenue	**2 474.0**	**400.5**	**2 874.5**	2 153.6	357.6	2 511.2
	Operating profit [1]	**564.9**	**163.7**	**728.6**	449.7	143.8	593.5
	Operating assets [2]	**2 288.3**	**602.0**	**2 890.3**	2 116.9	510.1	2 627.0
	Operating liabilities	**191.4**	**92.1**	**283.5**	146.2	79.0	225.2
	Capital expenditure	**39.8**	**–**	**39.8**	37.4	–	37.4
	Depreciation	**35.0**	**–**	**35.0**	36.9	–	36.9

		2006			2005		
		South Africa	**Other**	**Group**	South Africa	Other	Group
		Rm	**Rm**	**Rm**	Rm	Rm	Rm
32.2	**Geographical**						
	Revenue	**2 575.0**	**299.5**	**2 874.5**	2 229.1	282.1	2 511.2
	Operating assets [2]	**2 656.3**	**234.0**	**2 890.3**	2 363.4	263.6	2 627.0
	Capital expenditure	**36.9**	**2.9**	**39.8**	35.0	2.4	37.4

[1] Operating profit excludes share-based payments of R58.4 million (2005: R10.8 million) relating to the share awards and options granted at date of listing.
[2] Operating assets does not include deferred tax asset of R89.7 million (2005: R48.7 million).

32.3 **Inter-segment transfers**

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

transition to

international financial reporting standards ANNEXURE A

The Lewis Group adopted International Financial Reporting Standards ("IFRS") in the current financial year. The date of transition to IFRS is 1 April 2004. The opening balance sheet as at 1 April 2004 and the comparative information for the 2005 financial year has been restated to comply with IFRS. Lewis has utilised certain transitional arrangements in IFRS 1 ("First-time adoption of International Financial Reporting Standards"). The following exemptions under IFRS 1 and adoption of IFRS standards applicable to the group have been made in order to restate the comparative information:

1. **Exemptions under IFRS 1:**
   A. **Fair value as deemed cost**
   Lewis elected to apply the fair value of land and buildings as deemed cost. Accordingly, depreciation previously provided has been reversed. Deferred taxation has been provided on the revalued amount at the income tax rate.

   B. **Retirement benefits**
   Unrecognised actuarial gains and losses at the date of transition has been recognised and charged against retained income.

   C. **Cumulative translation differences**
   Foreign currency adjustments arising on the translation of foreign operations will continue to be recognised directly in equity. The balance on the Foreign Currency Translation Reserve at the date of transition was reset to zero.

   D. **Designation of financial instruments**
   Gilts held by Monarch Insurance Company have been designated as available-for-sale (previously recognised as fair value through profit and loss).

2. **Adoption of IFRS standards**
   A. **IFRS 2 : Share-based payments**
   Share-based payments are recognised as an expense in the income statement over the vesting period with a corresponding credit to equity (refer note 18.2).

   B. **IAS 17: Property leases**
   Operating leases with fixed escalations have been recognised as an expense on a straight-line basis over the lease term and not on the basis of the cash outflows as in previous years (refer note 1.6) in accordance with SAICA Circular 7/2005.

transition to

international financial reporting standards ANNEXURE A

C. **IAS16: Property, plant and equipment**
Depreciation will be provided on buildings at deemed cost (refer 1A above). The residual value will be re-assessed at each balance sheet date (refer note 1.5).

D. **IAS2: Inventory valuation**
Due to the reclassification of settlement discounts to cost of sales (refer 3 below), an appropriate adjustment to the inventory valuation was required.

3. **Reclassifications in the income statement**
The following reclassifications were made:

   1. Insurance premiums paid to re-insurers are now deducted from insurance premiums written. This was previously included in cost of sales. In addition, reinsurance commissions received have been included in revenue.
   2. Settlement discounts have been reclassified to cost of sales.
   3. Additional expense categories included in other operating costs have been separately disclosed, namely administration and IT, marketing and transport and travel.

4. **Cash flow statement**
There is no change in the cash flows for 2005.

5. **Basis of transition to IFRS**
The following exemptions within IFRS 1 were not applied:

- exemption from restatement of comparatives for IAS 32 and IAS 39;
- insurance contracts;
- compound financial instruments;
- assets and liabilities of subsidiaries, associates and joint ventures;
- decommissioning liabilities included in the cost of property, plant and equipment; and
- leasing arrangements.

In terms of IFRS1, the retrospective application of the following items were not allowed:

- derecognition of financial assets and liabilities;
- hedge accounting;
- estimates; and
- assets held for sale.

transition to

international financial reporting standards ANNEXURE A

Restatement of Income Statement for the year ending 31 March 2005

	Reported under SA GAAP	1A	1B	1C	1D	2A	2B	2C	2D	3	Reported under IFRS
		Adjustments to comply with IFRS*									
Revenue	2 511.5									(0.3)	2 511.2
Cost of merchandise sales	(1 050.9)								(0.5)	166.4	(885.0)
Operating costs	(870.9)										(1 043.5)
Employment costs	(409.4)		3.4								(406.0)
Share-based payments	–					(10.8)					(10.8)
Administration and IT	–									(134.5)	(134.5)
Bad debts and impairment provision	(101.6)										(101.6)
Marketing	–									(79.6)	(79.6)
Occupancy costs	(89.2)						1.3				(87.9)
Transport and travel	–									(85.6)	(85.6)
Depreciation	(37.3)							0.4			(36.9)
Other operating costs	(233.4)							(0.8)		133.6	(100.6)
Operating profit	589.7										582.7
Investment income	45.9				(8.3)						37.6
Profit before finance costs	635.6										620.3
Net finance costs	(42.7)										(42.7)
Profit before taxation	592.9										577.6
Taxation	(184.0)		(1.1)		2.7		(0.5)	0.3	0.2		(182.4)
Net profit attributable to ordinary shareholders	408.9										395.2

* Adjustments 1A – 3 refer to the IFRS exemptions and adoptions detailed on pages 94 and 95.

transition to

international financial reporting standards ANNEXURE A

Restatement of Balance Sheet as at 31 March 2005

	Reported under SA GAAP	Adjustments to comply with IFRS*								Reported under IFRS
		1A	1B	1C	1D	2A	2B	2C	2D	
Assets										
Non-current assets										
Property, plant and equipment	112.2	47.4						(0.1)		159.5
Investments – insurance business**	171.6									171.6
Deferred taxation	46.8	(12.7)	10.6				2.7		1.3	48.7
	330.6									379.8
Current assets										
Investments – insurance business**	334.2									334.2
Inventories	160.1								(4.3)	155.8
Trade and other receivables	1 750.6									1 750.6
Cash on hand and deposits	55.3									55.3
	2 300.2									2 295.9
Total assets	2 630.8									2 675.7
Equity and liabilities										
Capital and reserves										
Share capital and premium	676.9									676.9
Other reserves	54.7	(27.7)		2.2	12.3	10.8				52.3
Retained earnings	1 327.8	62.4	(25.2)	(2.2)	(12.3)	(10.8)	(6.2)	(0.1)	(3.0)	1 330.4
	2 059.4									2 059.6
Non-current liabilities										
Interest-bearing borrowings	1.7									1.7
Deferred taxation	12.0									12.0
Retirement benefits	36.6		35.8							72.4
	50.3									86.1
Current liabilities										
Trade and other payables	216.3						8.9			225.2
Taxation	125.6									125.6
Current-portion of interest-bearing borrowings	7.2									7.2
Overdrafts and short-term interest-bearing borrowings	172.0									172.0
	521.1									530.0
Total equity and liabilities	2 630.8									2 675.7

* Adjustments 1A – 2D refer to the IFRS exemptions and adoptions detailed on pages 94 and 95.

** Gilts reclassified as non-current asset in terms of IFRS.

transition to

international financial reporting standards ANNEXURE A

Restatement of Balance Sheet as at 1 April 2004

	Reported under SA GAAP	Adjustments to comply with IFRS* 1A	1B	1C	1D	2A	2B	2C	2D	Reported under IFRS
Assets										
Non-current assets										
Property, plant and equipment	115.4	47.6								163.0
Investments – insurance business**	354.2									354.2
	469.6									517.2
Current assets										
Investments – insurance business**	88.7									88.7
Inventories	155.3								(3.8)	151.5
Trade and other receivables	1 751.7									1 751.7
Cash on hand and deposits	358.8									358.8
	2 354.5									2 350.7
Total assets	2 824.1									2 867.9
Equity and liabilities										
Capital and reserves										
Share capital and premium	300.9									300.9
Other reserves	32.1	(28.5)		2.2	6.6					12.4
Retained earnings	981.2	63.2	(27.5)	(2.2)	(6.6)		(7.0)		(2.7)	998.4
	1 314.2									1 311.7
Non-current liabilities										
Interest-bearing borrowings	683.8									683.8
Deferred taxation	28.1	12.9	(11.7)				(3.0)		(1.1)	25.2
Retirement benefits	36.0		39.2							75.2
	747.9									784.2
Current liabilities										
Trade and other payables	207.4						10.0			217.4
Taxation	82.4									82.4
Current-portion of interest-bearing borrowings	472.2									472.2
	762.0									772.0
Total equity and liabilities	2 824.1									2 867.9

* Adjustments 1A – 2D refer to the IFRS exemptions and adoptions detailed on pages 94 and 95.

** Gilts reclassified as non-current asset in terms of IFRS.

interest in subsidiary companies ANNEXURE B

for the year ended 31 March 2006

	Nature of business	2006 Carrying value of subsidiaries Rm	2006 % Holding	2005 Carrying value of subsidiaries Rm	2005 % Holding
Directly held					
Lewis Stores (Pty) Ltd	F	2 800.0	100%	2 800.0	100%
Indirectly held					
Incorporated in South Africa					
Barons Furnishers (Pty) Ltd	D				100%
Dan Hands (Pty) Ltd	D				100%
Kingtimm (Pty) Ltd	L		100%		100%
Lewis Stores (Bophuthatswana) (Pty) Ltd	D				100%
Lewis Stores (Butterworth) (Pty) Ltd	D				100%
Lewis Stores (Mount Frere) (Pty) Ltd	D				100%
Lewis Stores (Transkei) (Pty) Ltd	D				100%
Lewis Stores (Umzimkulu) (Pty) Ltd	D				100%
Lewis Stores (Venda) (Pty) Ltd	D				100%
Lifestyle Living (Pty) Ltd	F		100%		100%
M. Lewis Estates (Kenilworth) (Pty) Ltd	R		100%		100%
M. Lewis Estates (Queenstown) (Pty) Ltd	D				100%
M. Lewis Estates (Randfontein) (Pty) Ltd	D				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		**1.4**		2.1	
Interest in subsidiaries		**2 801.4**		2 802.1	

F Furniture dealer
I Insurance company
M Management services company
R Dormant; in process of being deregistered
L Company holding property leases
D Company deregistered in 2006

shareholders' information

Shareholders' spread as at 31 March 2006	Number of shareholders		Number of shares	
	Total	%	Total	%
1 – 1 000 shares	1 138	48.82%	583 662	0.58%
1 001 – 10 000 shares	692	29.69%	2 543 140	2.54%
10 001 – 100 000 shares	353	15.14%	12 806 037	12.81%
100 001 – 1 000 000 shares	131	5.62%	40 978 887	40.98%
1 000 001 shares and over	17	0.73%	43 088 274	43.09%
	2 331	100.00%	100 000 000	100.00%

Distribution of shareholders as at 31 March 2006	% of holding
Public:	
Pension Funds	37.00%
Unit Trusts	27.26%
Insurance Companies	11.56%
Other	19.00%
Non Public:	
Lewis Stores (Pty) Ltd	3.36%
Lewis Employee Incentive Scheme Trust	1.57%
Directors	0.25%
	100.00%

Analysis of shareholding as at 31 March 2006	% of holding
Beneficial holders (holding greater than 3%)	
Public Investment Corporation	17.18%
Metropolitan Life	4.74%
Investment Solutions	4.28%
Lewis Stores (Pty) Ltd	3.36%
By fund manager (holding greater than 5%)	
RMB Asset Management	9.88%
Old Mutual Asset Management	9.26%
Sanlam Investment Management	8.63%
Metropolitan Asset Management	6.74%
Investec Asset Management	6.24%
Futuregrowth Asset Management	5.06%

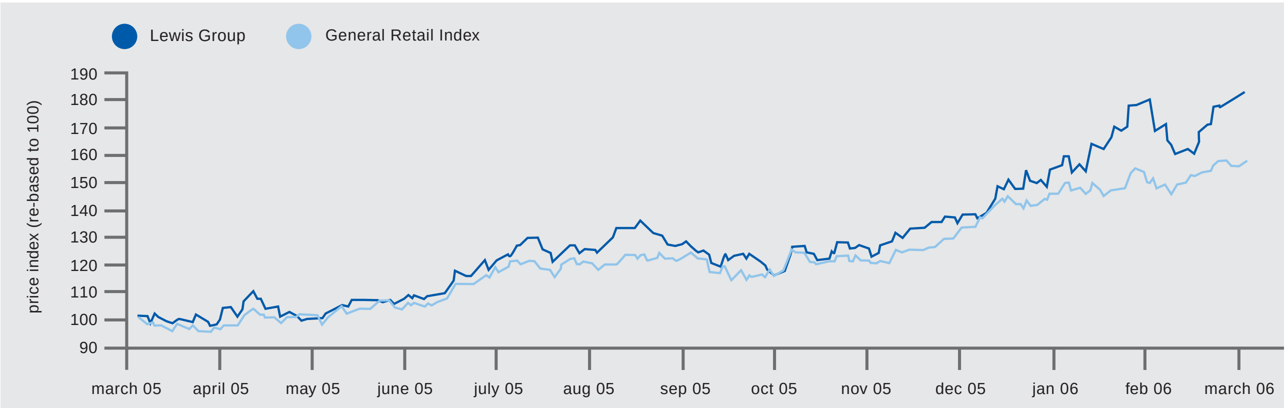
shareholders' information

... continued

Shareholders' calendar	
Financial year-end	31 March 2006
Preliminary profit announcement	22 May 2006
Annual report	29 June 2006
Final dividend declared	22 May 2006
Last day to trade "cum" the dividend	14 July 2006
Date trading commences "ex" dividend	17 July 2006
Record date	21 July 2006
Date of dividend payment	24 July 2006
Annual general meeting	4 August 2006
Interim profit announcement	13 November 2006

Performance of share

Lewis Group as compared to the General Retail Index for the 12 month period



Share price trends	Closing price (R)	Monthly avg price (R)
Share price as at 31 March 2005	33.51	–
April 2005	35.40	34.05
May 2005	34.25	35.06
June 2005	36.50	36.01
July 2005	41.50	38.90
August 2005	42.10	42.52
September 2005	43.00	44.30
October 2005	40.15	41.24
November 2005	41.80	42.31
December 2005	46.94	45.10
January 2006	53.26	50.17
February 2006	61.00	56.24
March 2006	61.60	57.90
% Increase in share price for the 12-month period (%)	**83.83%**	

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 second annual general meeting of shareholders ("AGM") of the company for the year ended 31 March 2006 will be held at Lewis Group Head Office, 53A Victoria Road, Woodstock at 10:00 am on Friday, 4 August 2006. 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 2006 accompanying this notice be accepted and approved."

2. **Ordinary resolution number 2**

   Election of directors

   Mr Hilton Saven and Professor Fatima Abrahams retire in accordance with the company's Articles of Association. Both Mr Hilton Saven and Professor Fatima Abrahams, being eligible, offer themselves for re-election.

   Hilton Saven (age 53)

   Professor Fatima Abrahams (age 43)

   Brief CVs of the directors are presented on page 9 of the annual report.

   Appointment of Hilton Saven as director

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

   Appointment of Professor Fatima Abrahams as director

   2.2 "Resolved that Professor Fatima Abrahams be and is hereby elected as director of the company."

notice of

annual general meeting ... continued

3. **Ordinary resolution number 3**

   Approval of directors' remuneration for the year ended 31 March 2006

   "Resolved that the remuneration of the directors for the year ended 31 March 2006 as reflected on page 82 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 2007.

   "Resolved that the fees of the directors as reflected below be approved for the year ended 31 March 2007.

Board

Chairman	R300 000
Director	R140 000

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

Chairman	R140 000
Director	R60 000

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

Chairman	R60 000
Director	R30 000

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

Chairperson	R40 000
Director	R20 000."

5. **Ordinary resolution number 5**

   Approval of reappointment of auditors

   "Resolved that PricewaterhouseCoopers Inc are hereby reappointed 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 Limited ("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 percent) 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 percent) of such shares thereafter, which announcement shall contain full details of such acquisitions;

notice of annual general meeting ... continued

- 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 percent) (or 10% (ten percent) 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 percent) 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;
- 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;
- the company shall only appoint one agent to effect any acquisition/s on its behalf.
- after such acquisitions by the company or its subsidiaries, the company will still comply with the JSE Listings Requirements concerning shareholder spread requirements; and
- the company or its subsidiaries shall not acquire shares during a prohibited period as defined in the JSE Listings Requirements.

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 states 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 maximum number of shares to be acquired and the date on which such acquisition will take place, the directors of the company will only make the acquisition 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 the 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 the 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 the annual general meeting;
  - 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 the annual general meeting; and

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

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 8 to 9 and 20 to 21;
- the major shareholders of the company on page 100;
- the directors' shareholding in the company on page 61; and
- the share capital of the company in note 8 on page 74 and an analysis of the shareholders on page 100.

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 2006 and the reporting date.

The directors, whose names are given on pages 8 to 9 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 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 Secretaries (Computershare Investor Services 2004 (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2017)) or lodging it at the registered office of the company by no later than 24 hours prior to the time appointed for the holding of the meeting.

notice of annual general meeting ... continued

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 Secretaries (Computershare Investor Services 2004 (Pty) Limited, 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

P B CROUCHER Company Secretary
9 June 2006

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, at 10:00 on Friday, 4 August 2006 ("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 Professor Fatima Abrahams as director			
Ordinary resolution number 3 Approval of directors' remuneration for the year 31 March 2006			
Ordinary resolution number 4 Approval of directors' fees for the year to 31 March 2007			
Ordinary resolution number 5 Approval of reappointment 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 2006

Signature/s

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

Assisted by

(where applicable)

Telephone number:

Please read the notes on reverse side.

INCE

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 2004 (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2017), or lodged with the company secretary to be received by no later than 10:00 on Thursday, 3 August 2006.

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.

Lewis Group Limited
"Lewis", "the group" or "the company"

Registration number: 2004/009817/06 • ISIN: ZAE000058236

Registered office: 53A Victoria Road, Woodstock, 7925

Postal address: PO Box 43, Woodstock, 7915

Telephone number: +27(21) 460-4400

Transfer secretaries
Computershare Investor Services 2004 (Pty) Ltd
70 Marshall Street, Johannesburg, 2001

Auditors
PricewaterhouseCoopers Inc.

Corporate law advisers
Sonnenberg Hoffmann Galombik

Principal bankers
FNB Corporate • The Standard Bank of South Africa Limited • ABSA Corporate and Merchant Bank

Sponsor
UBS South Africa (Pty) Ltd

Directors
Executive: A J Smart (Chief Executive Officer)
Independent non-executives: D M Nurek (Chairman), H Saven, B van der Ross, Professor F Abrahams

Company secretary: P B Croucher

Designed by motiv

PRINTED BY INCE (PTY) LTD

www.lewisgroup.co.za