Lewis Group Ltd

annual report

2007

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

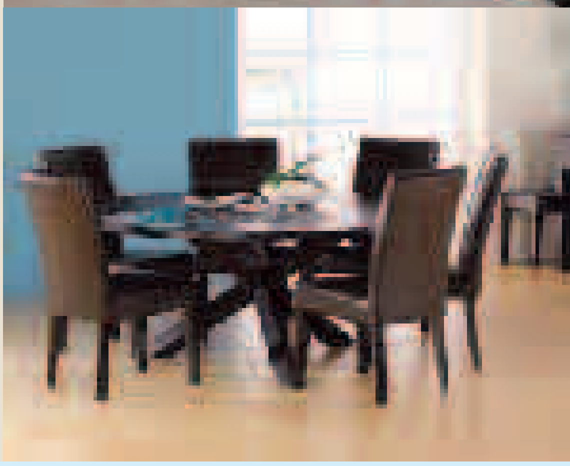
Our values are echoed in the Lewis Group Pledge, which presents a code of behaviour that we stand by, having invested much time and focus in bringing it "to life" throughout the business.

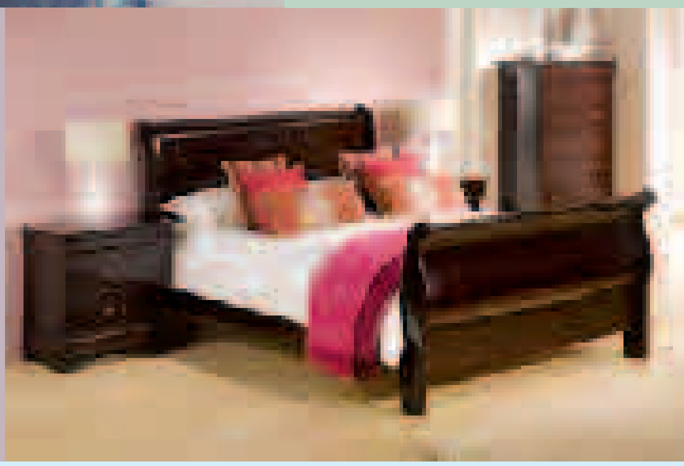
our pledge

- 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. The group offers a selected range of furniture and appliances through its extensive network of 508 stores.

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

normalised **earnings**

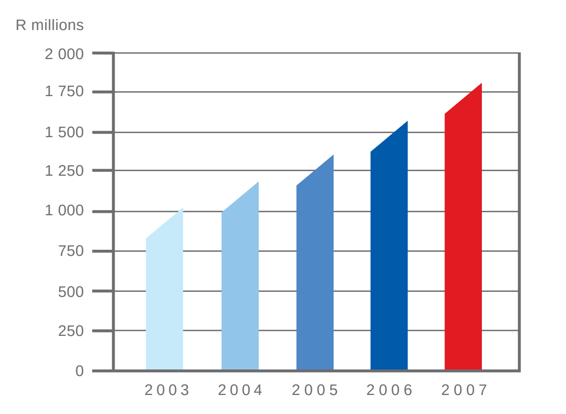
The group's 2006 results were presented on a normalised basis to reflect the actual operational performance of the business and excluded a R58.4 million charge for share-based payments. This charge arose from share allocations to staff by the former holding company at the time of the listing of the Lewis Group. The charge resulted in no economic cost or dilutionary effect to shareholders.

Normalised income statement

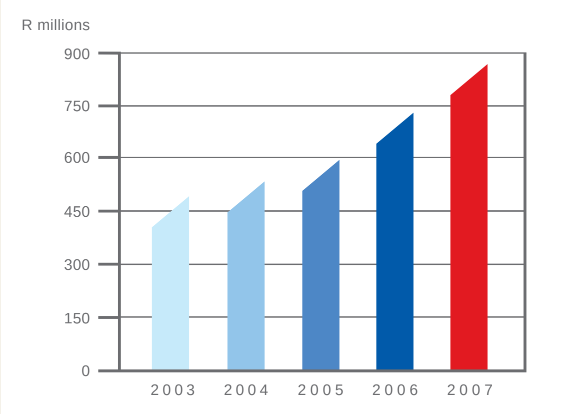
	12 months ended 31 March 2007 Rm	% change	12 months ended 31 March 2006 Rm
Revenue	**3 323.5**	**15.6%**	2 874.5
Merchandise sales	**1 808.8**	**15.4%**	1 567.8
Finance charges earned	**776.7**		674.4
Insurance premiums earned	**464.7**		400.4
Services rendered	**273.3**		231.9
Cost of merchandise sales	**(1 194.0)**		(1 020.6)
Operating costs	**(1 269.6)**		(1 125.3)
Employment costs	**(485.6)**		(440.2)
Administration and IT	**(162.3)**		(152.3)
Bad debts written off	**(138.4)**		(132.9)
Doubtful debt charge	**(9.5)**		17.4
Marketing	**(106.9)**		(89.1)
Occupancy costs	**(116.7)**		(98.3)
Transport and travel	**(109.2)**		(98.4)
Depreciation	**(38.9)**		(35.0)
Other operating costs	**(102.1)**		(96.5)
Operating profit	**859.9**	**18.0%**	728.6
Investment income	**42.7**		28.9
Profit before finance costs	**902.6**		757.5
Net finance costs	**(12.4)**		(12.8)
Interest paid	**(29.6)**		(13.4)
Interest received	**4.0**		5.9
Foreign exchange contracts	**13.2**		(5.3)
Profit before taxation	**890.2**		744.7
Taxation	**(291.9)**		(237.6)
Normalised attributable net profit	**598.3**	**18.0%**	507.1
Normalised headline earnings	**594.2**	**16.4%**	510.4
Weighted average shares in issue	**92 062**		97 300
Fully diluted weighted average shares in issue	**92 458**		97 501
Normalised earnings per share (cents)	**649.9**	**24.7%**	521.2
Normalised headline earnings per share (cents)	**645.4**	**23.0%**	524.6
Fully diluted normalised earnings per share (cents)	**647.1**	**24.4%**	520.1
Fully diluted normalised headline earnings per share (cents)	**642.7**	**22.8%**	523.5

financial **highlights**

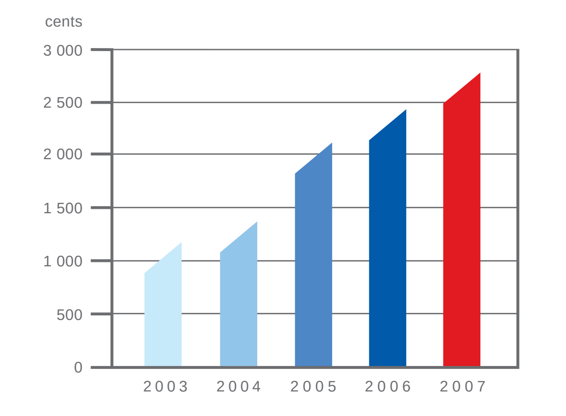
merchandise sales



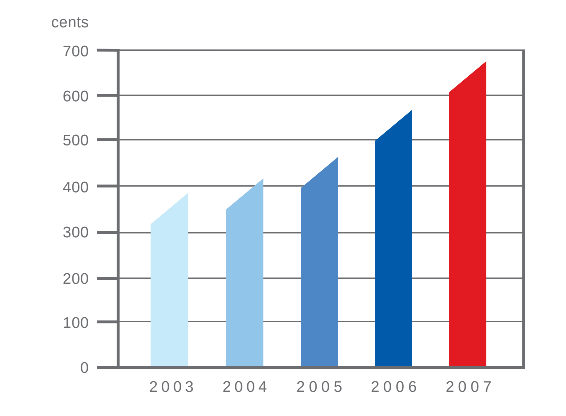
operating profit



net asset value per share



headline earnings per share



Based on normalised earnings. 2002 to 2004 calculated in terms of SA GAAP.

- Merchandise sales **up 15.4% to R1 808.8 million**
- Normalised operating profit **up 18% to R859.9 million**
- Normalised operating margin **improved to 25.9%**
- Normalised headline earnings per share **up by 23%**
  (38.9% on IFRS basis)
- Dividend per share **up 18.2%**
- Further improvement in the quality of debtors

retail **brands**

Lewis, the largest furniture brand with 407 stores, sells a wide range of household furniture, electrical appliances and home electronics to customers in the LSM 4 to 7 category.

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

BEST ELECTRIC

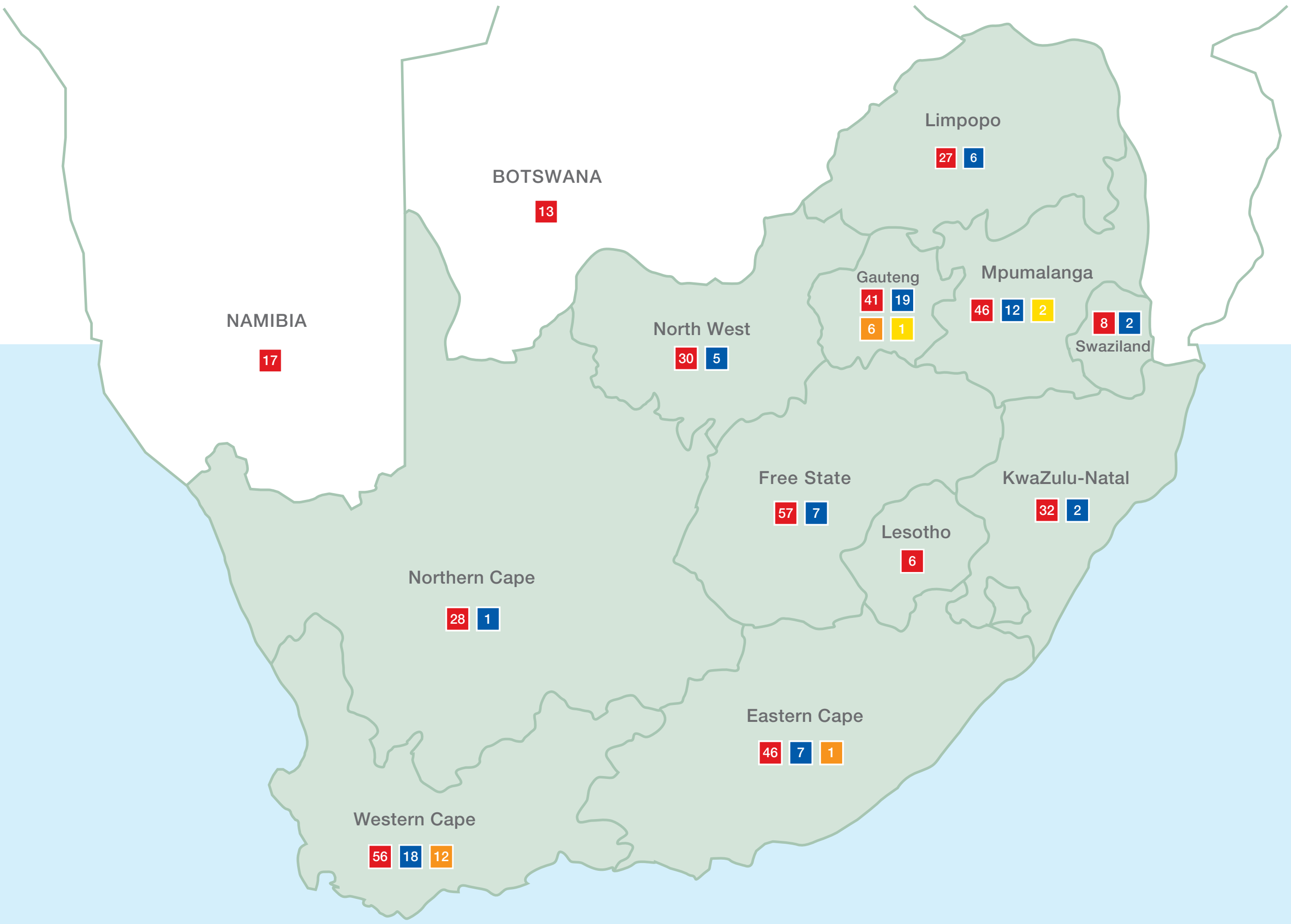
Best Electric, with 79 branches, is a specialist electrical appliance and audiovisual brand also targeting consumers in the LSM 4 to 7 category.

Lifestyle Living

Lifestyle Living, a growing niche furniture retailer with 19 stores, sells stylish furniture and accessories to consumers in the LSM 8 to 10 market.

our **geographical** footprint

Country & Province Locations	Lewis	Best Electric	Lifestyle Living	Best Bedding (Pilot test)
South Africa				
Free State	57	7	–	–
Western Cape	56	18	12	–
Eastern Cape	46	7	1	–
Mpumalanga	46	12	–	2
Gauteng	41	19	6	1
KwaZulu-Natal	32	2	–	–
North West	30	5	–	–
Northern Cape	28	1	–	–
Limpopo	27	6	–	–
Namibia	17	–	–	–
Botswana	13	–	–	–
Swaziland	8	2	–	–
Lesotho	6	–	–	–
Stores as at 31 March 2007	**407**	**79**	**19**	**3**
Total Stores	**508**			



board of **directors**

David Nurek • Ben van der Ross • Alan Smart • Hilton Saven • Professor Fatima Abrahams

Executive Director

Alan Smart (62)

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.

Non-executive Directors

David Nurek (57) – Diploma in Law

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

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

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

Hilton Saven (54) – BCom, CA(SA)

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

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

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

Ben van der Ross (60) – Diploma in Law

Independent Non-executive Director

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

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

Professor Fatima Abrahams (44) – BEcon (Hons), MCom, DCom

Independent Non-executive Director and Chairperson of the Transformation Committee

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

Fatima is currently a professor in the department of Industrial Psychology at the University of 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 Committees.

Executive Director Appointment since 31 March 2007

Les Davies, the group's chief financial officer, was appointed to the Board of Lewis Group Limited with effect 1 April 2007. His biography is included on page 21.

chairman's report

introduction

It is pleasing to report to shareholders on another year of sustained financial and operational growth from the Lewis Group. We have also seen this performance translate into increased shareholder wealth.

In the 30 months since the group listed in October 2004, the share price at year-end has increased 145% from the R28.00 listing price, with a R4.1 billion growth in the value of the business.

As shareholders, the Lewis staff and management have also shared in this prosperity as all employees received an allocation of free shares at the time of the listing and have benefited directly from their endeavours.

business environment

The consumer spending boom of the last few years signalled increasing prosperity in the country. This has largely been fuelled by growth in the levels of employment, broader economic participation through black empowerment schemes where staff and broad-based groups are the beneficiaries, and tax relief, including further reductions for low income earners announced in the 2006 National Budget.

In an attempt to dampen consumer demand for credit, the Reserve Bank raised the prime lending rate four times from 10.5% to 12.5% over an eight-month period during 2006. While acknowledging that these increased rates will take some time to filter through into reduced spending, the overall impact on the economy has not yet been meaningful. Over time, this may affect other credit-based retailers serving higher income target markets, but the Lewis Group is confident that consumers in our market will be less affected by increasing rates due to

David Nurek
Independent non-executive chairman

“An organic growth strategy driven by a highly experienced management team ... solid growth earnings.”

the fact that they have relatively low exposure to variable interest rates. However, the high oil price and higher food inflation does impact on our customers’ disposable incomes.

Spending within the Lewis target market is expected to be positive as employment levels increase, mainly as public sector infrastructure, electrification and transport projects gather momentum and other capital commitments kick off in the preparations for the 2010 Soccer World Cup.

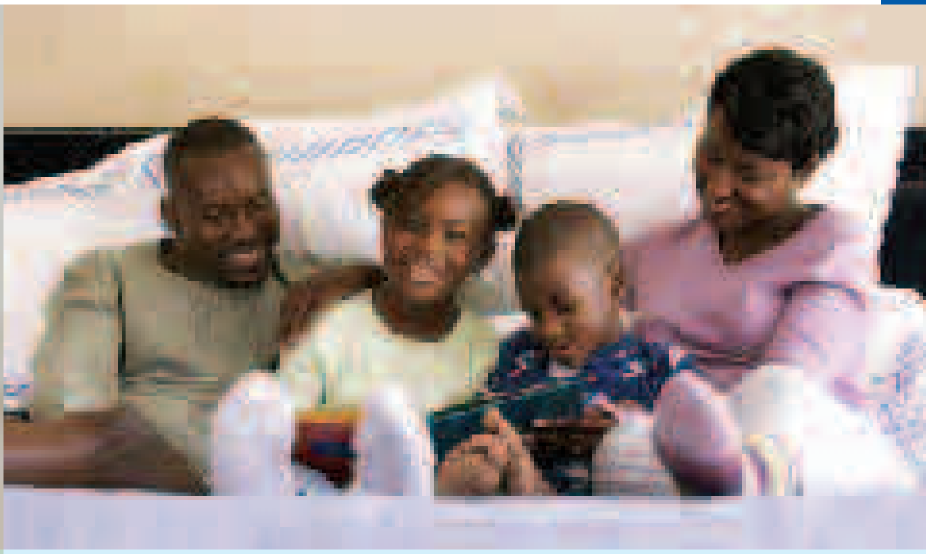
financial performance

The group has continued to produce strong financial results and to capitalise on the positive trading environment. Revenue increased by 15.6% to R3 323.5 million, with merchandise sales rising by 15.4% to R1 808.8 million as all three chains in the group produced solid sales growth.

Shareholders will recall that last year the group elected to report results on a normalised basis to reflect the actual operational performance of the business and exclude a charge for share-based payments following the adoption of IFRS. This charge arose from shares being made available for no consideration by the former holding company at the time of the listing of the Lewis Group and have had no impact whatsoever on current shareholders.

Normalised headline earnings per share increased by 23% to 645.4 cents as a result of the higher sales growth, improved margins, strong cash flows and further improvements in the quality of the credit book.

As part of the capital management strategy aimed at improving returns to shareholders, the group initiated a share repurchase programme.



chairman's report *continued*

By year-end 7.5% of the shares in issue had been repurchased by a subsidiary of the group at an average market price of R48.37. This has enhanced earnings per share and the group's return on equity. The group will continue to repurchase shares at levels which are earnings enhancing.

Shareholders will receive dividends of 266 cents per share for the year, an increase of 18.2% over 2006.

directorate and management

Chief executive Alan Smart (62) will continue in his position until his normal retirement date in three years' time. This will ensure that the group continues to benefit from Alan's proven leadership, but it will also allow for structured handover of responsibilities.

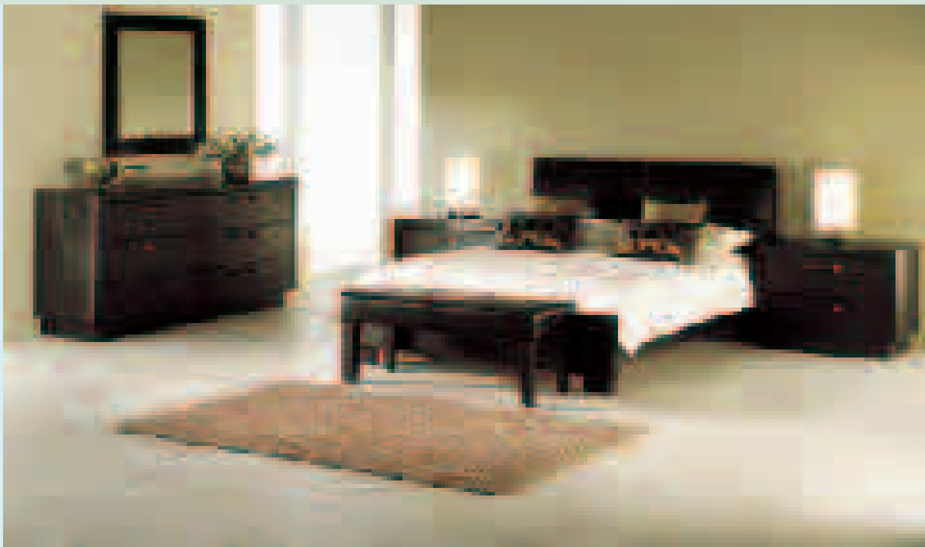
As part of the succession plan, chief financial officer Les Davies has been appointed as an executive director to the Board of the Lewis Group, and operations director Johan Enslin has been promoted to the newly-created position of chief operating officer.

Both these executives have outstanding track records and extensive experience with the group. Les (51) has been finance director of Lewis Stores (Pty) Ltd for 18 years. Johan (33) has been responsible for the operations of Lewis and Best Electric for the past five years. The Board believes that appointing an internal candidate as successor to the chief executive will maintain the strong culture of the Lewis Group.

Lewis is fortunate to have an impressive depth of highly experienced management. The 12-person executive team has an average of

Normalised headline earnings per share

up 23%



14 years' experience with the group and an average age of 48. At an operational level, the 12 divisional managers responsible for the store operations have an average length of service of 15 years (average age 43), while the 12 divisional credit managers have been with the group for an average of 11 years (average age 44). Lewis has a strong philosophy of developing management talent and promoting from within its own ranks.

prospects

The group's organic growth strategy is aimed at ensuring stable and consistent performance. Favourable trading conditions together with the growth in the store base should result in satisfactory growth in merchandise sales in the year ahead. Continued prudent credit management, our low cost base and a focus on extracting further operating efficiencies across the business will enhance profitability. In the absence of unforeseen factors in the macroeconomy, shareholders can expect satisfactory earnings growth in 2008.

thanks

Lewis Group has produced another year of consistent performance and Alan and his executive team are to be complimented for their leadership of the group. Thank you to my Board colleagues for their insight and wisdom in overseeing the affairs of the group. In closing I thank our shareholders for their vote of confidence in our business and the broader investment community for their insightful analysis of Lewis and the broader retail sector.

David Nurek
Independent non-executive chairman

chief executive's report

introduction

2007 has seen Lewis further entrench its position in the mass middle income furniture market, driven by strong merchandise sales growth, innovative merchandising strategies, continued expansion of the store base and prudent management of the growing debtors book.

"A focused merchandising strategy with consistent sales growth ... loyal customer support."

trading environment

Despite increasing interest rates over the past year, consumer spending among the middle income group continues to be robust and confidence levels among South African consumers has generally remained high, although the buoyant trading conditions may slow slightly as higher interest rates take effect.

The enlarged size of the middle income market, government infrastructural spend, tax relief and real wage increases will continue to afford business opportunities to the Lewis Group.

Alan Smart
Group Chief Executive Officer

operating performance

Total revenue increased by 15.6% to R3 323.5 million, bolstered by merchandise sales growth of 15.4% to R1 808.8 million. Comparable store merchandise sales grew by 11.3%. A pleasing feature of the performance was the consistent growth throughout the year and across all regions.

Merchandise procurement strategies implemented last year, together with the expansion of the furniture import programme in 2007, have offered new and current customers a range of exclusive and value-for-money products. Following the success of our merchandise initiatives, furniture now accounts for 50% of total sales (2006: 47%).

Lewis continues to generate a high percentage of repeat business as a result of its comprehensive re-serve scheme, together with local customer promotions. This has assisted in the attainment of merchandise sales growth.

The merchandise margin, adjusting for foreign exchange gains, remained relatively stable at 34.7% when compared to last year's 34.5%.

The three trading divisions all showed solid growth off a high base. Lewis grew by 12.4% to R1 481.8 million, with improved sales in the furniture category. Like-for-like sales growth was 10.9%. New store openings lifted Best Electric sales by 23.6% to R203.1 million, with comparable store growth at 7.5%, reflecting a slowing of demand of certain electronic goods.

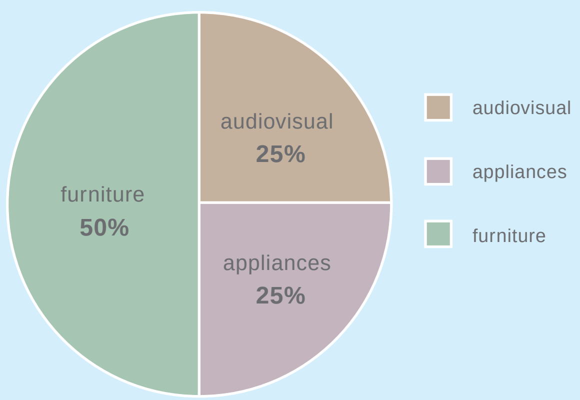
Lifestyle Living produced an outstanding performance and grew sales 43.9% to R122.9 million – like-for-like sales increased 23.7% – as the benefits of the brand's differentiated merchandise strategies continued to reap dividends. The division is now firmly on a sustainable growth path.

In November 2006, a specialised credit bedding/bedroom concept branded "Best Bedding" was pilot tested and is progressing according to plan.

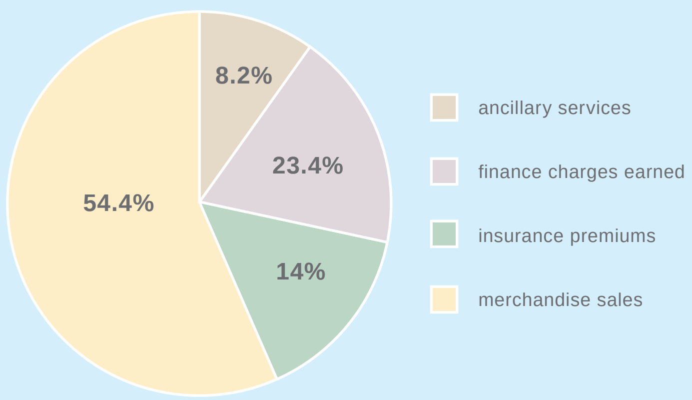
Operations in the neighbouring southern African countries of Botswana, Lesotho, Namibia and Swaziland contributed 10.2% (2006: 10.4%) of revenue. Currently, there are 46 stores in these countries.

The overall condition of the group's debtors book continues to improve and our average debtor, as measured by our doubtful debt provision, is in a healthier state than last year. The doubtful debt provision at 11.4% of total debtors reflects an improvement on the 12.6% for last year. The debtors book increased by R395.6 million (13.5%). Actual bad debts written off only increased by 4.1%. The length of the book has also decreased to 14.1 months from 14.3 months.

merchandising mix



revenue mix



chief executive's report *continued*

Normalised operating profit increased by 18% to R859.9 million, with the normalised operating margin improving from 25.3% to 25.9% as a result of the strong sales growth.

Share repurchases of R213.5 million during the year improved our return on equity for the year to 24.8% compared to 23.2% and enhanced the increase in normalised headline earnings per share to 23%.

store expansion

There has been continued expansion in our store base in recent years and a notable milestone was achieved when the 500th store was opened in Atteridgeville near Pretoria in November 2006.

We opened 22 new stores during the year, spread across Lewis (8), Best Electric (7), Lifestyle Living (4) and a pilot project for the specialist bedding chain (3). The majority of new stores have been opened in the greater Gauteng area.

Lewis remains the single largest furniture brand in the country with 407 stores, giving it significant economies of scale. Best Electric has grown to 79 stores and Lifestyle Living now has a store base of 19.

national credit act

The National Credit Act ("NCA") to be implemented in June 2007 is a welcome review of outdated credit legislation. The group supports the objectives of this legislation aimed at regulating credit granting and the protection of consumer rights, creating a sustainable and responsible credit industry.

Lewis will be fully compliant by the implementation date. Our systems have been easily adapted with minor changes necessary to the group's credit granting processes.

The store-based collection process ensures that Lewis will continue to interface closely with its customers and be a major advantage in dealing with certain aspects of the NCA.

The overall impact of the legislation is expected to be revenue neutral and the group is well prepared for the introduction of the NCA.

growth strategy

Underlying the group's strong performance has been the consistent application of our strategies by an experienced retail management team.

In the year ahead, the core focus will be increasing sales from existing stores, customer acquisition and retention initiatives and maintenance of the health of the debtors book. Further benefits of the merchandise procurement initiatives of the past two years are expected to be realised in the new year.

There are opportunities to expand the store network across all three chains and the group has a target of opening between 25 and 30 new stores each year.

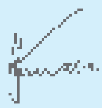
While organic growth is the preferred means of expansion, the group will consider acquiring businesses that are aligned with its core strengths, as well as developing ancillary income opportunities through strategic partnerships.

outlook

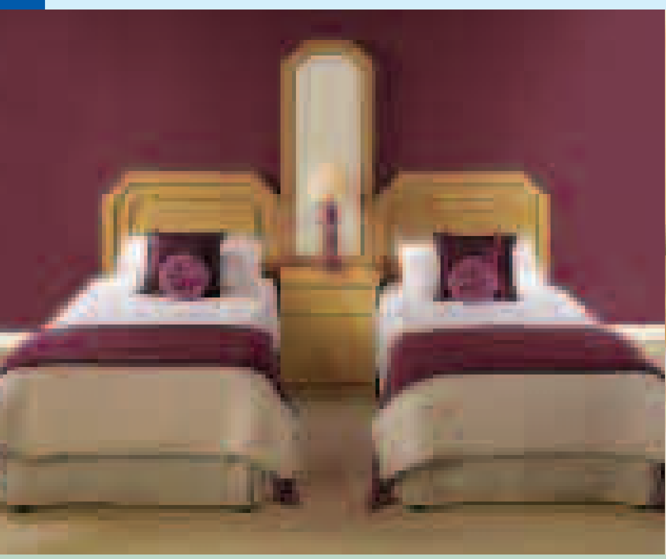
The underlying strength and size of the middle income market will continue to afford growth opportunities. We remain confident that the group will deliver satisfactory growth in sales and earnings in the year ahead.

thanks

My thanks are due to our more than 6 000 staff across the country who have once again delivered a sterling performance. I would also like to extend my gratitude to our suppliers and manufacturers for your contribution, and thank our business partners, the investment community and the media for your ongoing support. At the heart of our business are the customers who make it all possible and we thank you for your loyal patronage.



Alan Smart
Group Chief Executive Officer



executive committee

From left to right: Les Davies • Johan Enslin • Alan Smart • Chris Heiberg • Brett van Aswegen • Charles Irwin

Operating board of Lewis Stores (Pty) Ltd

Alan Smart (62)

Chief Executive Officer

Alan Smart is the chief executive officer and his biography is on page 9.

Les Davies (51) – CA(SA)

Chief Financial Officer

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

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

Johan Enslin (33)

Operations Director

Johan was appointed Chief Operating Officer of the group with effect 1 April 2007. He is responsible for the entire retail operations of the group.

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

Chris Heiberg (59)

Group Marketing and Merchandise Director

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

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

Charles Irwin (53)

Group IT Director

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

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

Brett van Aswegen (32) – BCom, MBA

Credit Risk Director

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

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

chief financial officer's report

introduction

The results for the year has been shaped by another strong trading performance, further improvements in the debtors book and an enhanced operating margin. Normalised operating profit increased by 18.0% to R859.9 million (2006: R728.6 million). Headline earnings per share on a normalised basis increased by 23.0% and return on equity has increased to 24.8% from 23.2%, both of these increases benefiting from our capital management programme.

We have placed 49% more cash back in the hands of shareholders this year, by continuing with the share repurchase programme and through dividend payouts. To date, 7.5% of the company's share capital has been repurchased and the dividend for the year amounts to 266 cents per share.

income statement analysis

Revenue comprising merchandise sales, finance charges, services and insurance income, grew by 15.6% to R3 323.5 million (2006: R2 874.5 million) with the revenue mix at similar levels to that of last year.

Merchandise sales increased by 15.4% to R1 808.8 million with like-for-like sales growth at 11.3%. We continue to benefit from our merchandising initiatives and the sustained growth from the middle income market. Insurance revenue, finance charges and ancillary services grew in line with merchandise sales.

The merchandise gross margin this year has been maintained.

Les Davies
Chief financial officer

"Sound credit risk management with a drive for operational efficiency ... improving operating margins."

The overall condition of the debtors book has improved as a result of our group credit risk management and the strength of the decentralised collection process. Bad debts written off during the year reflected an increase of 4.1%, notwithstanding the 13.5% increase in gross debtors.

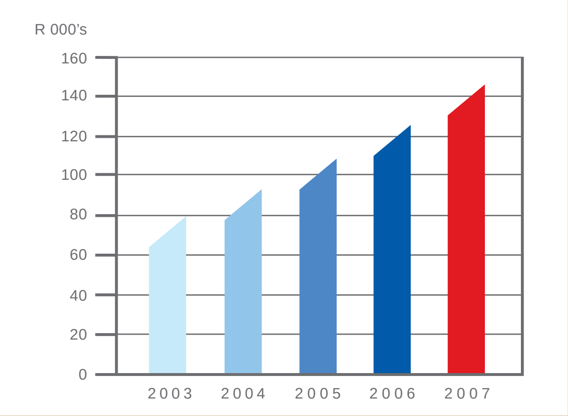
Operating expenses (excluding bad debts, provision for doubtful debts and share-based payments), as a percentage of revenue, improved from 35.1% last year to 33.6% this year. The drive for operational efficiency remains a priority in the business. The main trends in the expenditure are as follows:

- Marketing increased in support of growing sales, additional stores and the launch of the Best Bedding brand.
- Occupancy costs reflect the effect of lease averaging required under IFRS on the current year's renewals.
- Transport and travel increased as a consequence of rising petrol costs.

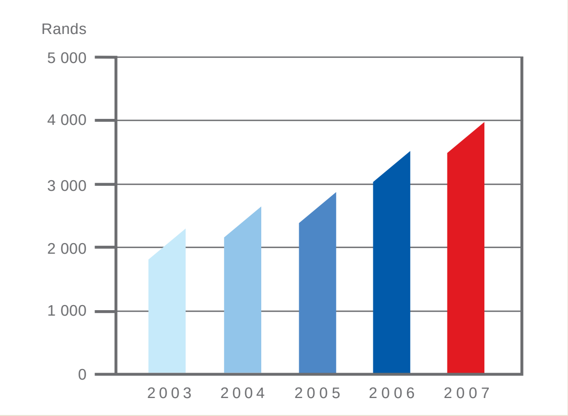
Investment income consists mainly of interest and dividend income on listed investments held by Monarch Insurance Company. The investments are held for the long term and traded when there is a need to rebalance the portfolio. The increase in investment income is due to an impairment of an available-for-sale asset of R12.3 million in the prior year.

Net finance costs remained level with last year. In terms of IFRS, exchange gains and losses on forward contracts have been accounted for under interest income. Interest paid increased from R12.7 million to R29.6 million as a result of higher gearing in line with our capital

normalised operating profit per employee



normalised operating profit per sqm



management programme. Interest rate exposure is managed via interest rate hedges to ensure the group is protected against adverse interest rate movements.

The effective tax rate is currently 32.8%. Adjusting the prior year for share-based payments, the prior year effective tax rate would have been 32.6%. The marginal increase is due to higher STC payments on an improved dividend distribution.

balance sheet review

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

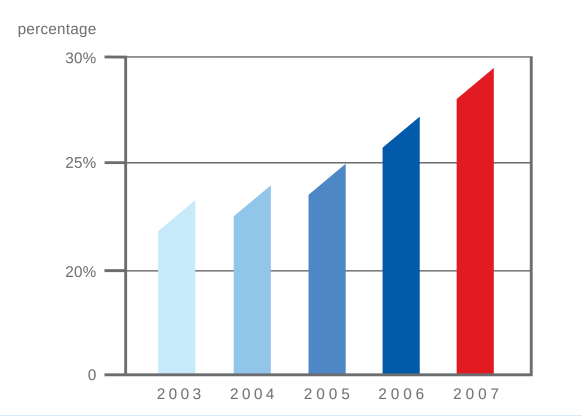
Inventory levels increased by 8.3% and have been well managed against a growth in merchandise sales of 15.4%. Inventory turn improved to 5.2 from 4.8 last year, benefiting from sales growth and improved distribution logistics.

Gross debtors increased by 13.5% to R3 317.0 million, below the revenue growth of 15.6%. The average age of the debtors book has improved to 14.1 months from 14.3 months and the provision for doubtful debts has reduced to 11.4% of gross debtors (2006: 12.6%), reflecting the continued good health of our debtors book.

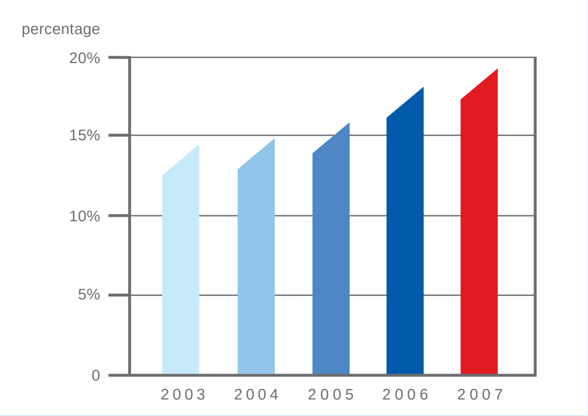
cash flow

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

normalised operating profit margin



return on assets managed



- Increased investment in working capital of R319.9 million (mainly debtors).
- Share repurchases of R213.5 million.
- Dividends paid during the year of R253.0 million.

Borrowings have increased by R295.7 million in line with long-term capital management planning and gearing has now increased to 15.6% (2006: 4.6%).

changes in equity

The increase in other reserves is the result of rising market values of equities held by Monarch Insurance Company.

The reduction in capital results from share repurchases of 4.1% during the year at a cost of R213.5 million. The shares have not been cancelled, but held by subsidiary, Lewis Stores (Pty) Ltd. To date, a total of 7.5% of own shares have been repurchased.

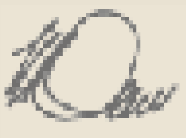
segmental reporting

On a geographic basis, 89.8% (2006: 89.6%) of revenue is generated within South Africa. The balance is attributable to Botswana, Lesotho, Namibia and Swaziland (BLNS).

The sale of customer protection insurance products accounts for 14% of group revenue and 21% of group operating profit.

international financial reporting standards

This is the second year of presenting the group's financial statements under International Financial Reporting Standards. No new standards were effective for the current year. The notes to the financial statements have been expanded in accordance with the disclosure requirements of the revised IAS 19.



Les Davies
CFO

"Strategic supplier partnerships with an exclusive, and value-for-money product range ... enduring customer loyalty."

marketing and merchandising

marketing

Lewis' strategic approach to marketing has played a pivotal role in driving increased sales not only by achieving a high level of brand awareness, but also entrenching customer loyalty to generate repeat sales.

The advertising strategy is merchandise driven and focused on monthly promotional campaigns, with regular and consistent advertising being used to create top-of-mind awareness. Television advertising is used to build the brand and attract new customers, while brochure marketing is the main advertising medium to "take the shop into the home", with all current and recently-settled customers receiving a monthly brochure mailing.

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

Lewis was again ranked second in brand awareness levels among furniture retailers in the authoritative Markinor Top Brands survey. This year's survey included a higher proportion of non-metropolitan respondents.

The group operates an in-house advertising studio and this ensures the most cost-effective production and efficient distribution of advertising material to the stores. All print and television commercials, as well as promotional material, is produced in-house while the media buying function is outsourced.

Chris Heiberg
Merchandising and Marketing Director*

* Lewis Stores (Pty) Ltd

marketing and merchandising *continued*

Creative input is obtained on a project basis from specialist advertising agencies from time to time.

The group strives to develop lifetime relationships with customers. A significant portion of sales continues to be generated from the current and settled customers through targeted direct mailings and selected offers. This "re-serve" programme identifies customers for further credit extension based on their payment behaviour and current level of indebtedness to the group. The customer base is segmented and targeted promotional offers are mailed to customers monthly. Marketing promotions are integrated into the store operations and debtor systems which ensures follow through by sales staff in stores.

Local promotions are focused on regaining settled and retaining existing customers, with personalised monthly in-store events and product demonstrations being held in every store. Joint promotions with corporate partners also play a role in attracting new customers.

As Lifestyle Living operates in a higher income market to Lewis and Best Electric, the marketing strategy focuses mainly on advertising in monthly magazines and weekly regional press. Seasonal catalogues featuring new merchandise ranges are inserted into targeted magazines.

A vital element of the group's marketing strategy is the Lewis Club, a customer loyalty programme which offers free and automatic membership to any customer taking out insurance when purchasing merchandise at Lewis.

Derek Louden
General Manager – Merchandising
Age 44, 7 years' service

Lewis Club members receive a monthly magazine which has a readership of two million people. The magazine includes special offers, discount coupons and competitions, while the editorial content focuses on general interest and topical lifestyle issues relevant to the Lewis customer profile.

merchandising

The group's merchandise procurement strategy is based on creating strategic partnerships with suppliers both locally and offshore which ensures exclusivity of product, unique design, value for money and generally enhanced margins. This has enabled Lewis to move away from the "sameness" that pervades the middle income furniture market, without compromising quality or affordability.

Imported merchandise is balanced with local furniture manufacturing, where the group sources a large proportion of furniture from suppliers which offer this product differentiation.

The furniture import strategy has contributed to increase sales and the shift in the product mix with furniture sales accounting for 50% (2006: 47%) of total sales. Electrical appliances accounted for 25% (2006: 25%) and audiovisual products 25% (2006: 28%).

Quality control on imports is contracted to a Hong Kong-based supply specialist who manage and support all imports.

As the largest furniture retail brand in South Africa, Lewis can guarantee large volume orders to suppliers which enhances price negotiations. Products are sourced from a diverse range of suppliers, including regional suppliers which improves delivery lead times to stores.

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

The importance of merchandise innovation is paramount to the success of the group. We have an experienced management team that will continue to deliver, what we believe to be, a strategic competitive advantage.

Adiel Allie
Manager – Import Logistics
Age 44, 26 years' service



"500 stores across southern Africa
with committed sales teams ...
focused customer services ethic."

operations

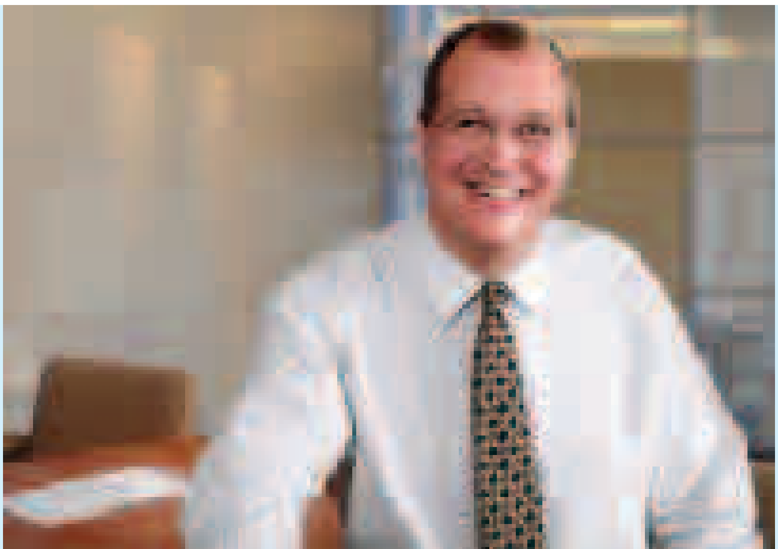
store operations

The group continues to focus on extracting operating efficiencies and enhancing productivity across its network of 508 stores in southern Africa.

The operational structure is both empowering and entrepreneurial, ensuring store managers assume accountability for all aspects of the customer interface, including sales and credit collection. This decentralised structure enables branch managers to make decisions which influence the performance of their stores. Managers are remunerated according to this philosophy, earning a basic salary and incentives based on sales, credit collections and profitability. Sales staff are largely commission based and are incentivised for achieving performance targets. Credit collection staff are also rewarded for outperforming collection targets.

Lewis enjoys a high level of loyalty with its customer base, evidenced by a high percentage of sales in the past year being generated from existing customers. This can be attributed to the close interaction between the store staff and our customers. This is a core Lewis competency.

Emphasis on training staff is a fundamental objective of the company and all staff participate in a weekly training exercise which includes Lewis Live, the television-based training tool. This programme features a variety of training modules with the emphasis being on product knowledge for sales staff. Every salesman is evaluated on his knowledge and understanding of this product knowledge training.



Johan Enslin
Operations Director*

* Lewis Stores (Pty) Ltd

Encouraging progress has been made in ensuring the employee profile reflects the demographics of the customer base and the communities in which Lewis trades. Black staff now account for more than 83% (2006: 75%) of the total staff complement, with 58% of the operational management at store level being from previously disadvantaged groups.

LEWIS STORES

		2007	2006
Revenue, including insurance premiums written	Rm	**2 812.9**	2 485.0
Revenue growth	%	**13.0**	11.7
Merchandise sales	Rm	**1 481.8**	1 318.1
Merchandise sales growth	%	**12.4**	12.1
Comparable store merchandise sales growth	%	**10.9**	11.3
Number of stores		**407**	402
Total trading space	m^2	**194 395**	192 223
Annual revenue per m^2	R'000	**14.5**	12.9
Credit sales	%	**72.4**	72.9

Positioning

Lewis is South Africa's single largest furniture brand with 407 stores, including 44 stores in the neighbouring countries of Botswana, Lesotho, Namibia and Swaziland. The chain sells a range of household furniture, electrical appliances and home electronics to customers in the LSM 4 to 7 categories. Each store carries a basic range of merchandise and store

Rinus Oliphant
General Manager – Operations
Age 32, 10 years' service

Johan Meyer
General Manager – Operations
Age 43, 22 years' service

managers then select a further optional range to cater for specific markets and regional differences.

Review of the year

Lewis experienced strong growth in furniture sales which can largely be attributed to the appeal of the merchandise range, the value-for-money offering and rapid delivery times.

During the year Lewis opened eight stores, continuing to expand its presence into townships near major metropolitan areas, including Mamelodi, Moloto and Atteridgeville near Pretoria. Selected stores have been revamped to enhance the shopping experience for customers and to promote selected lines of merchandise. Further stores are planned for the new financial year.

Management team

The management team was strengthened with Mr Rinus Oliphant and Mr Johan Meyer being appointed as operations general managers. They have a combined experience of over 30 years.

BEST ELECTRIC

		2007	2006
Revenue, including insurance premiums written	Rm	**372.0**	295.2
Revenue growth	%	**26.0**	31.5
Merchandise sales	Rm	**203.1**	164.3
Merchandise sales growth	%	**23.6**	31.4
Comparable store merchandise sales growth	%	**7.5**	10.8
Number of stores		**79**	72
Total trading space	m^2	**11 789**	10 929
Annual revenue per m^2	R'000	**31.6**	27.0
Credit sales	%	**66.3**	66.1

Positioning

Best Electric is a specialist electrical appliance and audiovisual retail brand which targets a similar customer profile to Lewis in the LSM 4 to 7 groups. Stores are generally situated in high traffic areas with high trading densities.

Review of the year

Merchandise sales were up 23.6% off last year's high base. On a like-for-like basis the merchandise sales increased by 7.5%, reflecting a slowing of demand for certain electronic goods.

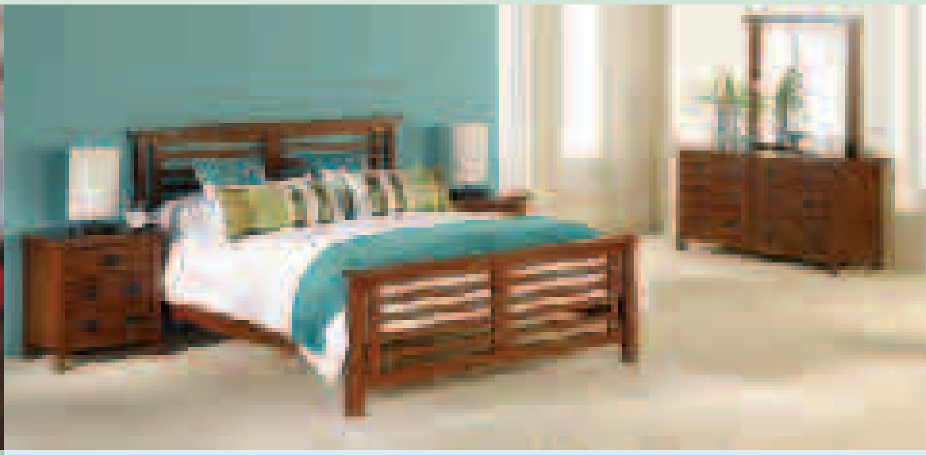
André Strydom
General Manager – Best Electric
Age 34, 8 years' service

Best Electric offers exclusive branded merchandise which is differentiated from Lewis to create a distinctive electrical goods brand. The branded merchandise is fully supported by local distributors.

The chain opened seven new stores and expanded its national store base to 79. Store siting has focused on shopping malls in townships such as Kathlehong (Germiston) and Atteridgeville (Pretoria). Further stores are planned for 2008.

LIFESTYLE LIVING

		2007	2006
Revenue, including insurance premiums written	Rm	**136.6**	94.3
Revenue growth	%	**44.0**	54.1
Merchandise sales	Rm	**122.9**	85.4
Merchandise sales growth	%	**43.9**	68.1
Comparable store merchandise sales growth	%	**23.7**	58.4
Number of stores		**19**	16
Total trading space	m^2	**8 371**	7 049
Annual revenue per m^2	R'000	**15.1**	13.4
Credit sales	%	**36.7**	35.5



Neil Timm
General Manager – Lifestyle Living
Age 52, 3 years' service

Positioning

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

Review of the year

The repositioning of Lifestyle Living over the past three years, together with successful merchandising strategies, has resulted in strong growth in merchandise sales and higher gross margins. Credit sales now account for 36.7% of total sales (2006: 35.5%) and have been stimulated by locating stores in more credit-oriented areas.

Four new stores were opened during the year.

BEST BEDDING DIVISION

This new division which offers customers beds and bedroom products on credit is currently being pilot tested. The results so far are encouraging.

insurance

Monarch, a wholly-owned subsidiary of the group, offers insurance products to customers purchasing on credit.

The basic insurance package covers customers for the duration of the contract and includes the settlement of the customers' outstanding balance to the Lewis Group in the event of death or permanent disability. Other cover includes the replacement of goods as a result of any form of accidental loss, such as fire, theft or a natural disaster and an optional benefit of retrenchment cover is also available. Customers taking out insurance products automatically qualify for free membership of the Lewis Club.

Monarch utilises the group's existing operational infrastructure to sell the insurance products, collect premiums and administer claims. The company reinsures 40% of its insurance risk through Constantia Insurance Company.

Monarch operates under a restricted short-term insurance licence and is registered with the Financial Services Board. The Short-term Insurance Act requires the company to hold assets to meet future financial obligations. Total insurance assets amount to R660.4 million.

The investment of the insurance portfolio is outsourced to Sanlam Investment Management ("SIM"). Funds may only be invested in specific, conservative asset classes and within prescribed regulatory

limits. The investment and asset allocation strategies are determined by SIM in consultation with the Boards of Lewis and Monarch.

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

Monarch's Board of directors includes two non-executive directors, Robert Shaw and Ray Sanger, and three executives of Lewis Stores. Both non-executive directors have extensive experience in the short-term insurance and reinsurance industries.

customer service

A strong customer service ethic pervades the entire group, with extensive resources being applied to monitoring service levels and acknowledging staff for their role in exceeding customer expectations. Management's commitment to delivering superior customer service is embodied in the company pledge which strives to "place excellent customer service first".

One of the key indicators that the group is indeed delivering superior service to customers is the high level of customer loyalty and repeat sales.

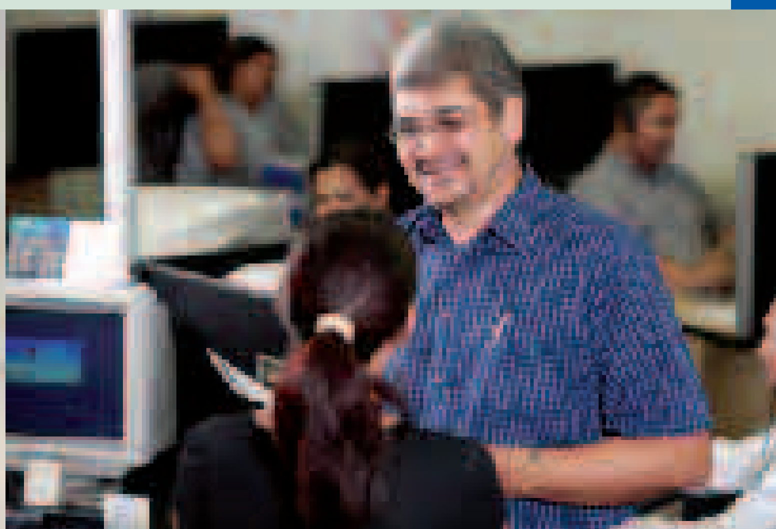
A range of research tools are used to monitor customer service levels, including mystery shopping, telephonic assessments and courtesy surveys among new customers. All research results are analysed by the Operations division, where shortcomings are addressed and outstanding service is rewarded.

Apart from normal inspections by operational management, independent mystery shoppers visit all stores across Lewis, Best Electric and Lifestyle Living chains twice a year. This technique assesses the professionalism of the sales staff, the store image, the sales skills and product knowledge of store staff, merchandise presentation and pricing, and an overall impression of the customers' visit to the store.

A random sample of new customers is surveyed each month to evaluate their purchasing experience, with ongoing surveys being done over the account life cycle.

The group has achieved a consistently high level of customer satisfaction in recent years.

A Service Excellence Club motivates and rewards staff for their outstanding customer service. Staff are nominated based on feed-back from customers, reports from mystery shopping research or by senior management. Club members qualify for attractive incentives, including an annual draw for a motor car.



Stanley Davids
Facilities Manager
Age 46, 23 years' service

credit

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

The group's credit operation consists of two components, namely credit risk management and credit collection. The risk management function is centralised at head office and includes credit risk scoring, credit approval, underwriting, fraud prevention and customer account management. The credit collections process is decentralised, with stores being responsible for cash collection. This enables more personal contact with customers and facilitates higher collection results.

Key features of credit management

		2007	2006
Credit sales as % of total sales	%	**69.3**	70.1
Gross debtors book	Rm	**3 317.0**	2 921.4
Increase in gross debtors book	%	**13.5**	9.1
Doubtful debt provision	Rm	**377.5**	368.0
Doubtful debt provision as % of gross debtors book	%	**11.4**	12.6
Bad debts written off	Rm	**138.4**	132.9
Doubtful debt charge	Rm	**9.5**	(17.4)
Debtors costs as a percentage of gross debtors	%	**4.5**	4.0
Arrears percentage (full contractual)	%	**21.0**	22.0
Average age of book	Months	**14.1**	14.3
Credit application decline rate	%	**20.1**	22.4%

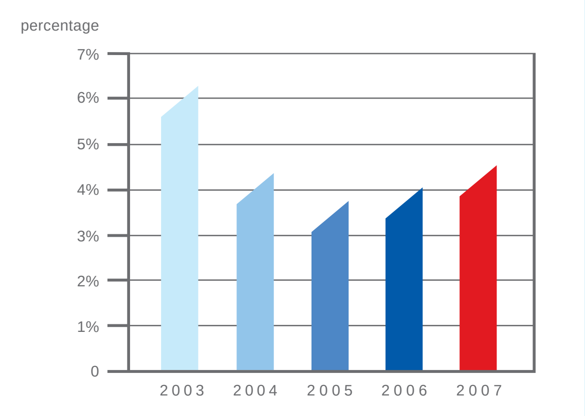
Credit risk management

Lewis has been at the forefront of applying advanced technology-based credit scoring systems to determine the credit risk of applicants. Credit application scorecards are regularly being refined and enhanced by using the latest predictive indicators. Experian, a global leader in information solutions, is contracted for the development of risk scorecards while an in-house team is responsible for the application, monitoring and maintenance of the credit management system.

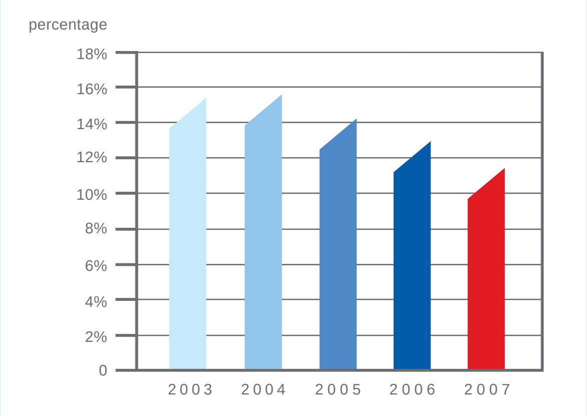
During the year, a fourth generation credit application scorecard was implemented for Lewis and a third generation scorecard adopted for Best Electric.

After a credit application is submitted from any store in South Africa, an approval or decline decision is relayed to the store within an average of nine seconds. A scorecard decision to decline a credit application may be appealed by a store manager to the credit referral department at

debtors costs (income statement)
bad debts and doubtful debts as percentage of gross debtors



provisioning (balance sheet)
doubtful debts provision as percentage of gross debtors



head office, who will review the decision. The final decision rests with the head office credit underwriter and no store operator may override this decision.

Credit 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 on to the Strategy Manager system, where the credit application scorecards and credit policy rules are applied.

A score is then assigned and together with the applicant's income and total indebtedness and expenses – as required by the National Credit Act ("NCA") – an initial credit limit is calculated for the new customer.

The decline rate has moved from 22.4% in 2006 to 20.1% in 2007, which is mainly attributable to the increased furniture sales mix which generally attracts a lower risk customer.

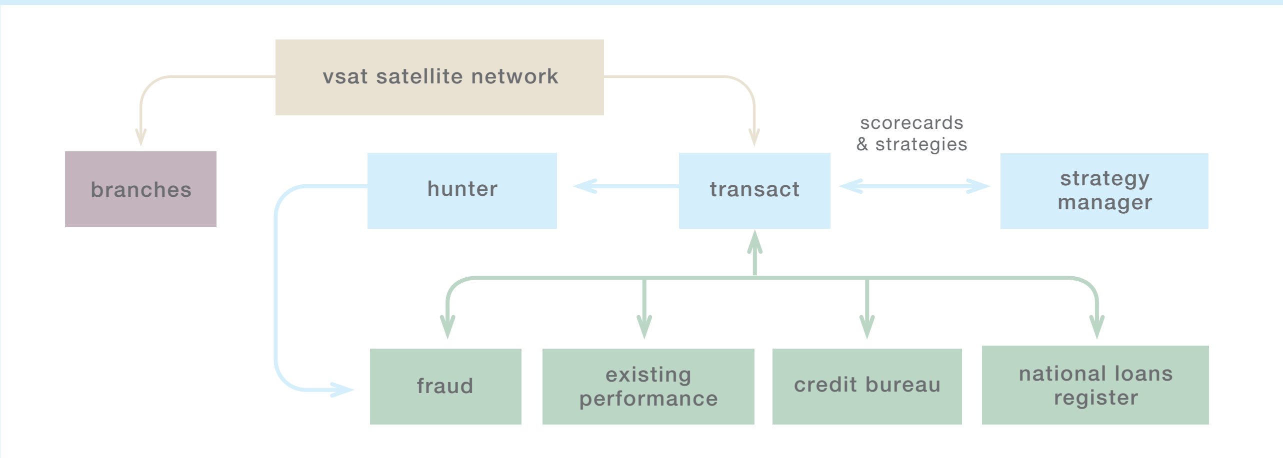
Behavioural scorecards are used to assess the credit risk of existing customers. These scorecards take into account the credit extended by Lewis as well as all other credit providers. This will become increasingly relevant in meeting the limit management and affordability criteria which will be introduced by the National Credit Act. The implementation of these scorecards, together with further improvements in customer segmentation, has enabled Lewis to reduce its credit risk levels and increase the volume of re-servable customers.

Credit collection

The quality of the Lewis debtors book continues to improve, reflected in a lower doubtful debt provision of 11.4% (2006: 12.6%) despite a substantial increase of 13.5% in gross debtors for the year. This can be ascribed to the quality of the credit granting systems and the efficiency of the decentralised credit collection processes.

The average length of the debtors book has improved to 14.1 months from 14.3 months, while the full contractual arrears percentage has declined to 21.0% (2006: 22.0%).

superior credit approval process



corporate **services**

information and communications technology

Lewis maintains a balance between centralised head office systems and decentralised systems supporting stores, while key service functions are outsourced.

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

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. A generator has been installed at head office to ensure that key systems are maintained.

During the year, the group has focused on investing in the maintenance of the infrastructure, while also adapting systems for compliance with new credit legislation. This included the installation of 2 050 new computer terminals for clerical branch staff, the phasing out of dated analogue voice telephony and the consolidation of data and voice technologies on to a single operating platform. These enhancements will improve service delivery to stores and create capacity for growth.

Off-site disaster **recovery facility support**

Lewis operates on a stable satellite network within South Africa and continues to use local infrastructure for data communications in neighbouring countries. During the year, operations in Botswana, Lesotho and Swaziland joined the satellite network.

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

Lewis continues to evaluate the most modern and cost-effective IT solutions. Outsourced contracts ensure the continuity of technical resources for critical centralised systems while at the same time simplifying store technology.

Following the finalisation of the provisions of the National Credit Act, work commenced on the system enhancements required to ensure compliance by 1 June 2007. System changes have been minimised as the group has in the past applied industry-leading credit risk management techniques which are closely aligned with the requirements of the Act.

group property and development

	Lewis	Best Electric	Lifestyle Living
Stores at start of financial year	402	72	16
Opened	8	7	4
Closed	(1)	–	(1)
Stores at year-end	407	79	19

The group opened 22 new stores during the year as well as relocating 10 stores to improved trading sites.

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

- Lewis outlets are generally situated in main streets and town centres, with some presence in shopping centres;
- Best Electric stores adopt a smaller format with high trading densities, and are generally located in shopping areas with higher footfall; and
- Lifestyle Living stores are mainly located in urban shopping malls.

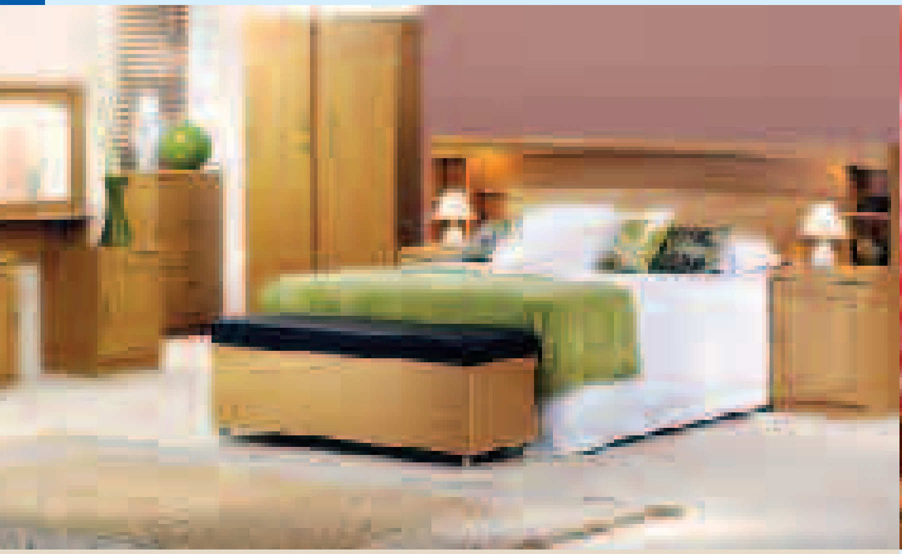
Lewis Group proudly opens 500th store

corporate **services** *continued*

The group's property procurement and development is managed centrally to maximise operational efficiencies. This includes the administration of the property portfolio, negotiation of lease agreements and renewals, sourcing new sites, managing store openings and refurbishments, co-ordinating store security and handling lease administration.

The majority of premises are leased and the group currently occupies over 450 rented sites in southern Africa.

The store revamp programme has continued, with selected stores being upgraded during the year. Each renovation includes new carpeting, tiles and repainting. The costs of upgrading and maintenance of stores are controlled through the use of dedicated upgrading teams and contractual relationships with strategic BEE partners.



corporate **social responsibility**

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

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

transformation

The achievement of a "BB" Empowerdex rating in May 2006 establishes a solid platform to progress transformation within the group. To monitor progress, a Transformation Committee was formed by the board consisting of non-executive directors, the chief executive officer and executive management responsible for employment equity, training, procurement and the corporate social responsibility programmes. The main focus of the committee has been to develop and refine group strategies, to establish the existing position and to ensure continuing progress in the group's transformation process.

employees

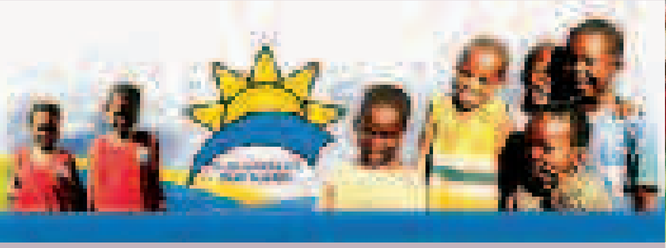
Our business success relies on a productive workforce, where sound employee relations are key. We aim to create an environment where loyal people with strong entrepreneurial and work ethic are rewarded and the skills and experience of the staff are retained to ensure the enduring performance of the group.

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 are also committed to ensuring a workplace that is representative of the demographics of South Africa and our customer base. We continually monitor our employee profile to ensure that it is reflective of the communities which we serve. More than 80% of our staff are from black communities.

We provide for the development of our staff, offering an extensive range of training courses for all employees, concentrating on the skills set for each of the job categories. It is the responsibility of operational management to continually identify candidates who require further training to enhance their performance and overall skills. During 2007, 1 844 staff members attended training courses including 1 494 previously disadvantaged staff.

Staff with management potential are continually being identified and being given the opportunity to further develop their career within the group. Manager development programmes are in place to take the employee through junior management levels through to senior management roles.



In addition, a development pool confirming staff from previously disadvantaged communities, who have been identified as having management potential, are receiving further training and exposure.

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

The group has expanded its skills training and product knowledge by means of a weekly television broadcast, known as "Lewis Live", directly to our branches. During the broadcast, employees are exposed to 15 minutes of skills training and 15 minutes of product knowledge. This contributes to a team culture where the staff understand the requirements of the other jobs in the store environment. Broadcasts reach approximately 4 000 employees each week.

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.
- Home loan assistance.
- Educational bursaries.
- Medical aid assistance.
- A subsidised canteen at head office.
- Counselling, advice and assistance to the employees who request such as a consequence of difficult personal circumstances.

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

hiv/aids

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

In April 2006, a HIV/AIDS management programme was introduced and made available to permanent staff and their immediate families. The programme is run by an external service provider who provides the following services:

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

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

Children of the Dawn
Lewis sponsors 45 children

Robin Good Initiative
Vegetable Tunnel

corporate **social responsibility** *continued*

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

communities

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

We have continued our association with Project Build to improve the educational and community facilities for disadvantaged communities in KwaZulu-Natal. They are responsible for managing construction. We are currently sponsoring the building of two sanitation facilities at Sicelulwazi Primary School at KwaMashu. The school has approximately 750 learners and no such facilities existed. Our involvement will significantly improve the educational environment for these learners.

Children of the Dawn supports and strengthens rural community initiatives which focus on caring for HIV/AIDS orphans and vulnerable children throughout South Africa. Lewis has sponsored 45 children over a 12-month period which will cater for such needs as schooling, nutrition, clothing, hygiene and health.

The South African Children's Home is located in the Gardens, Cape Town. It is home to 44 boys and girls who came from various communities, often placed in the home via the court system. Assistance has been provided through sponsorship and the provision of such amenities as beds, mattresses, furniture and cupboards.

The Thembalisha Foundation has as one of its objectives the alleviation of poverty through education. We sponsored a number of projects at various schools in the Western Cape namely:

- School of Hope.
- Siyazama Pre-School.
- Graceland Pre-School.
- Thembacare (Grabouw).

The group was also involved with Zenzele Training and Development, a non-profit organisation which teaches practical skills to unemployed people. We sponsored woodwork courses for 15 students.

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

Other assistance provided was as follows:

- Funding and donations for the Organ Donor Foundation, SA Guide Dog's Association, Cape Mental Health Society and the Robin Good Initiative.
- Supplying schools with name boards.
- Providing financial assistance and donations of kit to sports clubs in previously disadvantaged areas.

- Sundry donations to various non-profit organisations in response to requests.

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 South 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 R200 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 R30 000 donations are made to these selected charities on their behalf.

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.

environment

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

The main areas of focus are:

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

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

Sicelulwazi Primary School
Facilities sponsored by Lewis

corporate **governance**

introduction

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).

governance developments

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

- Formation of the Transformation Committee.
- The functions, responsibilities and charter of the Audit and Risk Committee are being aligned with the Corporate Laws Amendment Act of 2006 in anticipation of its application.
- Ongoing compliance with the Code of Corporate Practices and Conduct and JSE Listings Requirements.
- Complying with relevant legislation and regulations, with particular emphasis this year on the National Credit Act.
- Assessing the impact of emerging governance trends.

board and board committees

THE BOARD

Membership

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

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

* appointed 1 April 2007.

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.

Purpose and Function

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.

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

Meetings

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

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

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

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

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

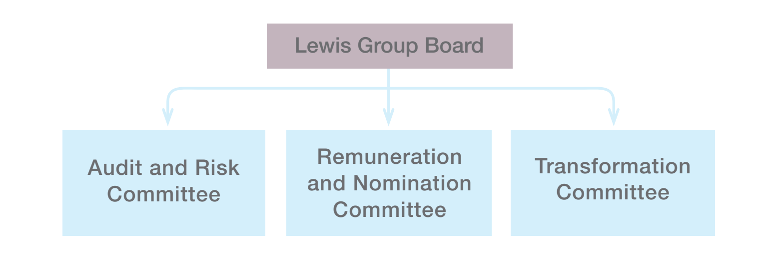
Attendance

	May 2006	August 2006	November 2006	March 2007
D M Nurek	✓	✓	✓	✓
H Saven	✓	✓	✓	✓
B J van der Ross	✓	✓	Apologies	✓
Professor F Abrahams	✓	✓	✓	✓
A J Smart	✓	✓	✓	✓

BOARD COMMITTEES

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

The Board structure is illustrated below.



AUDIT AND RISK COMMITTEE

Membership

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

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

Purpose and Function

The committee is responsible for:

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

Meetings

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

Currently, the charter and meeting agendas are being aligned with the Corporate Laws Amendment Act of 2006.

Attendance

	May 2006	August 2006	November 2006	March 2007
H Saven	✓	✓	✓	✓
D M Nurek	✓	✓	✓	✓
B J van der Ross	✓	✓	Apologies	✓

REMUNERATION AND NOMINATION COMMITTEE

Membership

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

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

Purpose and Function

The committee is responsible for the following:

- developing a remuneration philosophy;
- ensuring senior executives are fairly rewarded;
- succession planning;
- ensuring the Board has the required mix of skills, experience and other qualities to effectively manage the group; and
- identifying and nominating candidates to fill Board vacancies. Before nominating individuals, appropriate reference checks are performed.

Meetings

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

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

Attendance

	August 2006	March 2007
D M Nurek	✓	✓
H Saven	✓	✓
B J van der Ross	✓	✓
Professor F Abrahams	✓	✓

TRANSFORMATION COMMITTEE

Membership

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

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

Purpose and Function

The committee is responsible for:

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

Meetings

The committee meets twice a year. The first meeting of this committee was convened in October 2006 where the composition of the committee was reassessed. The committee now includes executives from Lewis. The reconstituted committee met for the first time in March 2007.

Attendance

	October 2006	March 2007
Professor F Abrahams	✓	✓
D M Nurek	✓	✓
A J Smart	n/a	✓
J Enslin	n/a	✓
D Loudon	n/a	✓
J Horn	n/a	✓
S Röhm	n/a	✓

n/a = not a member of the committee at the time.

other governance structures

EXECUTIVE COMMITTEE

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

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

The executive committee meets regularly and is responsible for assisting the Chief Executive Officer in the management of the group, is accountable for the performance of the group and makes policy proposals to the Board for consideration and adoption.

COMPANY SECRETARY

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

The appointment and removal of the company secretary is a matter of the Board.

internal controls and auditing

INTERNAL CONTROL

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

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

The effectiveness of the systems of internal control is monitored by the senior executives, general managers and the internal auditors. These reviews indicate that the systems of internal control are appropriate and satisfactory and in addition, no material loss, or misstatement arising from a material breakdown in the functioning of the systems has occurred. The Board is of the view that current controls are adequate and effective to mitigate, to an acceptable level, the significant risks faced by the group.

INTERNAL AUDIT

The internal audit department reports to the Audit and Risk Committee and has direct access to the Chairman of the Audit and Risk Committee. For day-to-day matters, it reports to the Chief Financial Officer.

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

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

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

EXTERNAL AUDITORS

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

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

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

compliance and codes of conduct

LEGISLATIVE COMPLIANCE

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

Particular emphasis has been placed on the National Credit Act due to the significance of the legislation on the group's activities. A project team has been working on the implementation of the Act since the initial bill was published. Regular reportbacks were made to an internal steering committee overseeing the overall implementation of the Act on the business processes and systems. Where appropriate, legal advice has been sought from attorneys. The Board has been updated on a regular basis with the progress of the project.

BEHAVIOURAL CODE

The group is committed to a culture of the highest levels of professionalism and integrity in its business dealings with stakeholders.

The behavioural codes set out standards of honesty, integrity and mutual respect. Employees are expected to act within this code at all times.

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

An anonymous hotline is available to all employees to report suspected incidents for investigation. Employees are guaranteed confidentiality in reporting such incidences.

CONFLICT OF INTEREST

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

SHARE DEALING

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

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

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

STAKEHOLDER COMMUNICATION

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

risk management

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

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

credit management

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

– *Social and economic trends*

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

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

– *The National Credit Act (“NCA”)*

  This consumer legislation governs the granting of credit and is scheduled for implementation on 1 June 2007.

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

human capital

LABOUR RELATED

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

KEY EXECUTIVES

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

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

procurement

The group imports directly 24.6% of total purchases from foreign suppliers. The foreign exchange risk of imports is mitigated by using forward contracts.

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

hiv/aids

South Africa has one of the highest HIV/AIDS infection rates in the world. An HIV/AIDS management programme was introduced in April 2006 for the group’s permanent staff and their immediate families. The cost of the cover is borne by the group. With respect to customers, the impact is indeterminable, but there has been no significant deterioration in the claims experience of Monarch Insurance Company due to the pandemic.

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 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.

five-year review

	2007 Rm	2006 Rm	2005 Rm	2004 Rm	2003 Rm
		(Normalised)			(SA GAAP)
Group Income Statements					
Revenue	**3 323.5**	2 874.5	2 511.2	2 274.7	2 037.9
Cost of sales	**(1 194.0)**	(1 020.6)	(885.0)	(919.6)	(813.5)
Operating costs	**(1 269.6)**	(1 125.3)	(1 032.7)	(849.5)	(795.1)
Operating profit before exceptional item	**859.9**	728.6	593.5	505.6	429.3
Exceptional item	**–**	–	–	–	47.9
Operating profit	**859.9**	728.6	593.5	505.6	477.2
Investment income	**42.7**	28.9	37.6	34.9	39.7
Profit before interest and taxes (EBITA)	**902.6**	757.5	631.1	540.5	516.9
Finance costs	**(12.4)**	(12.8)	(42.7)	(141.7)	(156.6)
Net profit before tax	**890.2**	744.7	588.4	398.8	360.3
Taxation	**(291.9)**	(237.6)	(182.4)	(111.5)	(108.2)
Normalised attributable profit	**598.3**	507.1	406.0	287.3	252.1
Normalised headline earnings	**594.2**	510.4	400.9	287.6	248.1
Group Balance Sheets					
Assets					
Non-current	**746.9**	730.9	608.8	257.4	289.9
Property, plant and equipment	**182.9**	163.2	159.5	115.4	117.5
Investments – insurance business	**461.1**	478.0	400.6	146.2	172.4
Deferred tax asset	**102.9**	89.7	48.7	–	–
Other	**–**	–	–	(4.2)	–
Current	**2 653.0**	2 249.1	2 066.9	2 562.5	2 256.9
Investments – insurance business	**199.3**	111.9	105.2	296.7	263.6
Inventories	**230.3**	212.6	155.8	155.3	120.2
Trade and other receivables	**2 187.7**	1 896.5	1 750.6	1 751.7	1 852.6
Cash and cash equivalents	**35.7**	28.1	55.3	358.8	20.5
Total assets	**3 399.9**	2 980.0	2 675.7	2 819.9	2 546.8
Equity and liabilities					
Capital and reserves	**2 527.2**	2 305.4	2 059.6	1 310.0	1 153.5
Non-current liabilities	**93.0**	97.7	86.1	747.9	1 162.2
Interest-bearing borrowings	**–**	1.0	1.7	683.8	1 016.4
Retirement benefits	**67.6**	75.8	72.4	36.0	33.7
Deferred taxation	**25.4**	20.9	12.0	28.1	112.1
Current liabilities	**779.7**	576.9	530.0	762.0	231.1
Trade and other payables	**287.7**	283.5	225.2	207.4	161.7
Current portion of interest-bearing borrowings	**1.0**	0.8	7.2	472.2	9.7
Short-term borrowings	**429.3**	132.8	172.0	–	36.7
Taxation	**61.7**	159.8	125.6	82.4	23.0
Total equity and liabilities	**3 399.9**	2 980.0	2 675.7	2 819.9	2 546.8

	2007	2006	2005	2004	2003
	Rm	Rm	Rm	Rm	Rm
		(Normalised)			(SA GAAP)
Group Cash Flow Statements					
Cash generated from operations	**591.5**	593.2	625.2	508.9	428.7
Dividends and interest received	**58.7**	41.3	46.9	49.5	48.1
Interest paid	**(30.0)**	(18.7)	(319.9)	(18.9)	(267.3)
Tax paid	**(403.2)**	(244.4)	(207.7)	(99.2)	(90.5)
Net cash retained from operations	**217.0**	371.4	144.5	440.3	119.0
Cash utilised in investing activities	**(66.6)**	(45.5)	(53.0)	(59.0)	(44.8)
Net effect of financing activities	**(439.3)**	(313.9)	(567.0)	(6.3)	6.3
Net cash increase/(decrease) in cash and cash equivalents	**(288.9)**	12.0	(475.5)	375.0	80.5

	2007	2006	2005	2004	2003
Ratios and Statistics					
Returns					
Return on average shareholders' funds	**24.8%**	23.2%	22.1%	24.8%	24.3%
After tax return on average capital employed	**22.5%**	22.1%	18.5%	17.0%	16.4%
After tax return on average assets managed	**19.0%**	18.2%	15.9%	14.4%	14.1%
Margins					
Gross margin	**34.0%**	34.9%	34.5%	33.6%	32.3%
Normalised operating margin	**25.9%**	25.3%	23.6%	22.2%	21.1%
Productivity					
Number of stores	**508**	490	475	465	444
Revenue per store (R 000's)	**6 542**	5 866	5 287	4 892	4 590
Normalised operating profit per store (R 000's)	**1 693**	1 487	1 249	1 087	967
Average number of employees (permanent employees only)	**6 310**	5 879	5 713	5 571	5 513
Revenue per employee (R 000's)	**527**	489	440	408	370
Normalised operating profit per employee (R 000's)	**136**	124	104	91	78
Trading space (sqm)	**215 076**	210 201	207 595	205 793	197 580
Revenue per sqm (R)	**15 453**	13 675	12 097	11 053	10 314
Normalised operating profit per sqm (R)	**3 998**	3 466	2 859	2 457	2 173
Inventory turn (times)	**5.2**	4.8	5.7	5.1	5.8
Credit ratios					
Cash sales % of total sales	**30.7%**	29.9%	30.1%	23.0%	18.2%
Bad and doubtful debt charge as a % of gross trade receivables	**4.5%**	4.0%	3.8%	4.4%	6.4%
Doubtful debt provision as a % of gross trade receivables	**11.4%**	12.6%	14.4%	15.6%	10.2%
Total debtors provisions as a % of gross trade receivables	**35.1%**	36.3%	35.6%	35.0%	28.2%
Credit application decline rate %	**20.1%**	22.4%	20.5%	22.3%	23.7%
Average age of book (months)	**14.1**	14.3	14.8	15.4	16.3
Arrear % (full contractual)	**21.0%**	22.0%	25.7%	27.3%	27.9%

	2007	2006	2005	2004	2003
Solvency and liquidity					
Normalised financing cover (times)	**72.8**	59.2	14.8	3.8	3.3
Dividend cover	**2.25**	2.25	3.00	n/a	n/a
Gearing ratio (%)	**15.6%**	4.6%	6.1%	60.9%	90.4%
Current ratio (times)	**3.4**	3.9	3.9	3.4	9.8
Share performance					
Normalised earnings per share (cents)	**649.9**	521.2	406.0	287.3	252.1
Normalised headline earnings per share (cents)	**645.4**	524.6	400.9	287.6	248.1
Cash flow per share (cents)	**642.5**	609.7	625.2	508.9	428.7
Net asset value per share (cents)	**2 774.3**	2 425.0	2 059.6	1 310.0	1 153.5
Share price:					
Closing price	**68.50**	61.60	33.51	n/a	n/a
High	**75.00**	62.97	41.50	n/a	n/a
Low	**43.00**	32.75	28.20	n/a	n/a
Normalised price-earnings ratio	**10.5**	11.8	8.3	n/a	n/a
Dividends per share for the financial year (cents)	**266**	225	135	n/a	n/a
Number of shares in issue (million)	**100**	100	100	n/a	n/a
Volume of shares traded (million)	**120.8**	156.1	61.8	n/a	n/a
Value of shares traded (million)	**6 859.1**	6 386.8	2 139.5	n/a	n/a
Market capitalisation (million)	**6 850**	6 160	3 351	n/a	n/a
Number of shareholders	**1 776**	2 331	2 862	n/a	n/a

Explanatory Notes:

1. All ratios are based on figures at the end of the period unless otherwise disclosed.
2. All amounts for the 2003 and 2004 financial years are in accordance with South African Generally Accepted Accounting Practice ("SA GAAP"). For 2005 to 2007 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. No restatement of the 2003 figure 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.
4. The return on equity for the 2005 financial year has been restated to exclude the effect of the restructuring prior to the listing.
5. The solvency/liquidity ratios for 2004 have been affected by the group structure prior to its listing.

definitions

The definitions below should be read in conjunction with the accounting policies set out in the financial statements on pages 70 to 76.

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 page 2).

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

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.

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 Limited divided by the normalised earnings per share.

Dividends per share for the financial year

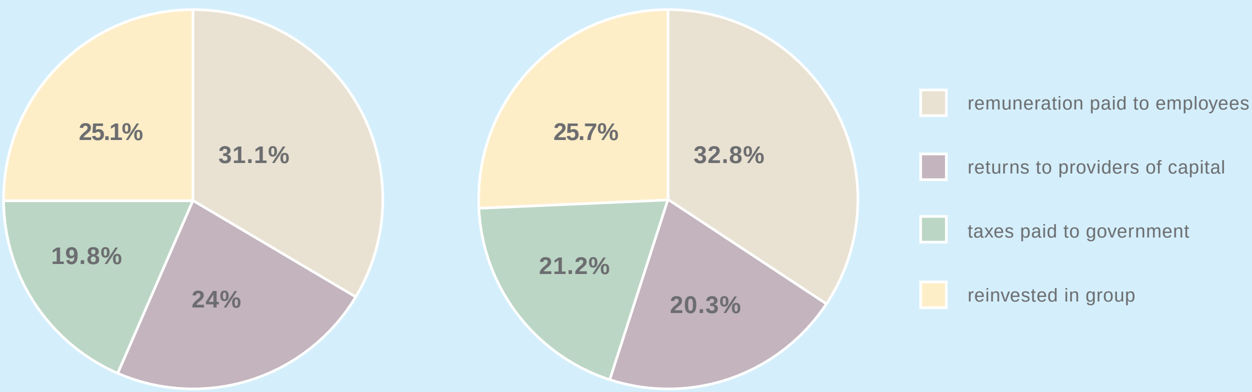
The dividends declared in respect of the financial year expressed as cents per share. Note that this will not correlate to the dividends reflected in the financial accounts since dividends are only recorded on payment.

value added statement

	group			
	2007		2006	
	Rm	**%**	Rm	%
Revenue	**3 323.5**		2 874.5	
Paid to suppliers for goods and services	**1 760.6**		1 533.8	
Value added by operating activities	**1 562.9**		1 340.7	
Distributed as follows:				
Remuneration to employees	**485.6**	**31.1%**	440.2	32.8%
Returns to providers of capital	**375.6**	**24.0%**	271.7	20.3%
To provide lenders with a return on their capital utilised	**29.6**		18.7	
To provide lessors with a return for the use of their premises	**114.2**		96.1	
To provide shareholders with a return on their equity	**231.8**		156.9	
Taxes paid to governments	**309.5**	**19.8%**	284.6	21.2%
Income taxation	**305.1**		278.6	
Regional Service Council Levies	**1.9**		3.8	
Municipal rates	**2.5**		2.2	
Reinvested in the group	**392.2**	**25.1%**	344.2	25.7%
Depreciation and amortisation	**38.9**		35.0	
Deferred taxation	**(13.2)**		(41.0)	
Net earnings retained	**366.5**		350.2	
Total wealth distributed	**1 562.9**	**100.0%**	1 340.7	100.0%

distribution of value added 2007

distribution of value added 2006



directors' responsibility statement

The annual financial statements have been prepared by management and conform with International Financial Reporting Standards ("IFRS") and are in accordance with the Companies Act of South Africa.

The financial statements which present the results and financial position of the company and its subsidiaries are the responsibility of the directors.

In fulfilling its responsibility, the Board of directors have approved the accounting policies applied and established that reasonable and sound judgements and estimates have been made by management when preparing the financial statements.

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

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

The Board of directors have reviewed the business of the group together with budget and cash flows for the year to 31 March 2008 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 63.

The financial statements of the group and the company for the year ended 31 March 2007, which appear on pages 64 to 102 have been approved by the Board of directors and signed on its behalf by:

D M Nurek
Chairman

A J Smart
Chief Executive Officer

Cape Town
21 May 2007

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

21 May 2007

independent auditor's report

TO THE SHAREHOLDERS OF LEWIS GROUP LIMITED

We have audited the annual financial statements of Lewis Group Limited and its subsidiaries (together, the group) which comprise the balance sheet as at 31 March 2007, the income statement, the statement of changes in equity, the cash flow statement and a summary of significant accounting policies and other explanatory notes, as set out on pages 64 to 102.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company and group as of 31 March 2007, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

Pricewaterhouse Coopers Inc

PricewaterhouseCoopers Inc
Director: H D Nel
Registered Auditors

Cape Town
21 May 2007

directors' report

Nature of business

Lewis Group Limited is a holding company listed on the JSE Limited, operating through two main trading subsidiaries, Lewis Stores (Proprietary) Limited and Monarch Insurance Company Limited. Lewis Stores (Proprietary) Limited offers a selected range of furniture and appliances through 407 Lewis and 79 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 19 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 102.

Review of financial results and activities

The financial results and affairs of the group are reflected in the annual financial statements set out on pages 66 to 102.

Segmental analysis

Segmental information is set out in note 30 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 approval of the financial statements by the directors.

Share capital

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

Treasury shares

The group purchased 7 507 000 (7.5%) 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 4 August 2006. Refer to note 7.1 and 7.2 for more detail.

The Lewis Employee Incentive Scheme Trust effectively holds 1 400 530 shares, of which 463 153 are unallocated and 937 377 retained to cover share awards and options granted to executives. Details have been set out in note 7 and 17.3 to the financial statements.

Dividends

The following dividends have been declared or proposed for the financial year ended 31 March 2007.

	Dividend per share	Date declared	Payable
Interim – declared	116 cents	13 November 2006	29 January 2007
Final – proposed	150 cents	21 May 2007	23 July 2007
For the year	266 cents		

Notice is hereby given that a final dividend of 150 cents per share in respect of the year ended 31 March 2007 has been declared payable to the holders of ordinary shares recorded in the books of the company on Friday, 20 July 2007. The last day to trade cum dividend will therefore be Friday, 13 July 2007 and Lewis shares will trade ex-dividend from Monday, 16 July 2007. Payment of the dividend will be made on Monday, 23 July 2007. Share certificates may not be dematerialised or rematerialised between Monday, 16 July 2007 and Friday, 20 July 2007, both days inclusive.

Directors

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

In terms of the Articles of Association of the company, David Nurek, Ben van der Ross and Les Davies 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' interests

At 31 March 2007, the directors' beneficial direct and indirect interest in the company's issued shares was as follows:

	2007		2006	
	Direct	**Indirect**	Direct	Indirect
D M Nurek	**–**	**10 000**	–	10 000
H Saven	**–**	**540**	–	540
A J Smart	**235 428**	**–**	235 428	–
	235 428	**10 540**	235 428	10 540

A J Smart is entitled to 219 428 options and 80 917 share awards. Full details of the terms and conditions in relation to these options and share awards are set out in note 17.4 to the financial statements.

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

No related party transactions in terms of the JSE Limited Listings Requirements took place between the company or its subsidiaries and the directors or their associates, other than remuneration for services rendered to the company as set out in note 17.4 to the financial statements.

Subsidiary companies

Details of the company's subsidiaries are set out on page 102.

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

	2007 Rm	2006 Rm
Profits	**602.6**	452.2
Losses	**–**	(0.2)

Borrowing powers

Borrowings were R430.3 million at 31 March 2007 (2006: R134.6 million). Borrowings are subject to the treasury policy adopted by the Board of directors.

In terms of the Articles of Association, the group has unlimited borrowing powers.

Special resolutions

At the annual general meeting on 4 August 2006, 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 90 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, 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."

No special resolutions were passed by the subsidiaries.

balance sheet

at 31 March 2007

	Notes	group 2007 Rm	2006 Rm
Assets			
Non-current assets			
Property, plant and equipment	3	**182.9**	163.2
Investments – insurance business	4	**461.1**	478.0
Deferred taxation	11	**102.9**	89.7
		746.9	730.9
Current assets			
Investments – insurance business	4	**199.3**	111.9
Inventories	5	**230.3**	212.6
Trade and other receivables	6	**2 187.7**	1 896.5
Cash on hand and deposits		**35.7**	28.1
		2 653.0	2 249.1
Total assets		**3 399.9**	2 980.0
Equity and liabilities			
Capital and reserves			
Share capital and premium	7	**311.4**	524.9
Other reserves	8	**156.5**	92.0
Retained earnings	9	**2 059.3**	1 688.5
		2 527.2	2 305.4
Non-current liabilities			
Interest-bearing borrowings	10	**–**	1.0
Deferred taxation	11	**25.4**	20.9
Retirement benefits	12	**67.6**	75.8
		93.0	97.7
Current liabilities			
Trade and other payables	13	**287.7**	283.5
Taxation		**61.7**	159.8
Current portion of interest-bearing borrowings	10	**1.0**	0.8
Overdrafts and short-term interest-bearing borrowings	14	**429.3**	132.8
		779.7	576.9
Total equity and liabilities		**3 399.9**	2 980.0

income statement

for the year ended 31 March 2007

		group	
	Notes	**2007 Rm**	2006 Rm
Revenue		**3 323.5**	2 874.5
Merchandise sales		**1 808.8**	1 567.8
Finance charges earned		**776.7**	674.4
Insurance premiums earned	15	**464.7**	400.4
Ancillary services		**273.3**	231.9
Cost of merchandise sales	16	**(1 194.0)**	(1 020.6)
Operating costs		**(1 269.6)**	(1 183.7)
Employment costs	17.1	**(481.6)**	(439.9)
Share-based payments	17.2	**(4.0)**	(58.7)
Administration and IT		**(162.3)**	(152.3)
Bad debts written off		**(138.4)**	(132.9)
Doubtful debt charge		**(9.5)**	17.4
Marketing		**(106.9)**	(89.1)
Occupancy costs		**(116.7)**	(98.3)
Transport and travel		**(109.2)**	(98.4)
Depreciation		**(38.9)**	(35.0)
Other operating costs		**(102.1)**	(96.5)
Operating profit	19	**859.9**	670.2
Investment income	20	**42.7**	28.9
Profit before finance costs		**902.6**	699.1
Net finance costs		**(12.4)**	(12.8)
Interest paid	21.1	**(29.6)**	(13.4)
Interest received	21.2	**4.0**	5.9
Forward exchange contracts	21.3	**13.2**	(5.3)
Profit before taxation		**890.2**	686.3
Taxation	22	**(291.9)**	(237.6)
Net profit attributable to ordinary shareholders		**598.3**	448.7
Earnings per share (cents)	23	**649.9**	461.2
Diluted earnings per share (cents)	23	**647.1**	460.2
Dividends paid per share (cents)		**253.0**	162.0
Dividends declared per share (cents)		**266.0**	225.0

statement of **changes in equity**

for the year ended 31 March 2007

		group			
	Notes	Share capital and premium Rm	Other reserves Rm	Retained earnings Rm	Total Rm
Balance at 1 April 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 assets 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	24	–	–	(156.9)	(156.9)
Balance at 31 March 2006		**524.9**	**92.0**	**1 688.5**	**2 305.4**
Net profit attributable to ordinary shareholders		**–**	**–**	**598.3**	**598.3**
Fair value adjustments of available-for-sale investments, net of tax		**–**	**54.0**	**–**	**54.0**
Disposal of available-for-sale investments recognised		**–**	**(1.4)**	**–**	**(1.4)**
Share-based payment		**–**	**4.0**	**–**	**4.0**
Transfer of share-based payment reserve to retained income on vesting		**–**	**(1.7)**	**1.7**	**–**
Cost of treasury shares acquired (shares repurchased)		**(213.5)**	**–**	**–**	**(213.5)**
Profit on sale of own shares		**–**	**–**	**6.8**	**6.8**
Transfer to contingency reserve		**–**	**4.2**	**(4.2)**	**–**
Foreign currency translation reserve movement		**–**	**5.4**	**–**	**5.4**
Dividends paid	24	**–**	**–**	**(231.8)**	**(231.8)**
Balance at 31 March 2007		**311.4**	**156.5**	**2 059.3**	**2 527.2**

cash flow statement

for the year ended 31 March 2007

	Notes	group 2007 Rm	group 2006 Rm
Cash flow from operating activities			
Cash generated from operations	25.1	**591.5**	593.2
Dividends and interest received		**58.7**	41.3
Finance costs		**(30.0)**	(18.7)
Taxation paid	25.2	**(403.2)**	(244.4)
Cash retained from operating activities		**217.0**	371.4
Cash utilised in investing activities			
Net additions to insurance business investments		**(11.8)**	(12.8)
Acquisition of property, plant and equipment		**(60.6)**	(39.8)
Proceeds on disposal of property, plant and equipment		**5.8**	7.1
Net cash outflow from investing activities		**(66.6)**	(45.5)
Cash effects of financing activities			
Purchase of treasury shares		**(213.5)**	(152.2)
Dividends paid		**(231.8)**	(156.9)
Proceeds on sale of own shares		**6.8**	2.3
Finance lease liability		**(0.8)**	(7.1)
Net cash outflow from financing activities		**(439.3)**	(313.9)
Net (decrease)/increase in cash and cash equivalents		**(288.9)**	12.0
Cash and cash equivalents at the beginning of the year		**(104.7)**	(116.7)
Cash and cash equivalents at the end of the year	25.3	**(393.6)**	(104.7)

notes to the annual financial statements for the year ended 31 March 2007

1. **Basis of preparation**

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

The following new or revised IFRSs and interpretations have become applicable to the 2007 financial statements:

IAS 19 amendment: Employee Benefits
IAS 21 amendment: Net Investment in Foreign Operations
IAS 39 amendment: Fair Value Option

The implementation of these interpretations and amendments to the standards did not have a significant impact on the group's results and cash flows for the year ended 31 March 2007 and the financial position as at 31 March 2007. Disclosure in the notes to the financial statements have been amended in accordance with the requirements of the revised IAS 19.

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

IFRS 7 and IAS 1 (amendment): Financial Instruments – Capital Disclosures
IFRIC 8: Scope of IFRS 2
IFRIC 9: Reassessment of Embedded Derivatives
IFRIC 10: Interim Reporting and Impairment
IFRIC 11: Group and Treasury Shares
IFRS 8: Operating Segments

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. Exchange profits and losses arising from the translation of monetary assets and liabilities at balance sheet date or on subsequent settlement of these monetary items are recognised in the income statement in the period in which they arise.

1.3.3 Foreign entities

The assets and liabilities of foreign subsidiaries (excluding loans which are part of the net investment) are translated at the closing rate, while income, expenditure and cash flow items are translated using the average exchange rate. Differences arising on translation are reflected in a foreign currency translation reserve, a separate component of equity. On disposal of a foreign subsidiary, such translation differences are recognised in the income statement as a gain or loss 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 principally for the purpose of selling in the short term. Assets in this category are classified as current assets where expected to be realised within twelve months of balance sheet date.

(ii) Financial assets acquired with the intention of being held indefinitely are 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 initially at fair value and subsequently measured at amortised cost using the effective interest rate, less a provision for doubtful debts. The provision for doubtful debts is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Changes in the provision are recognised in the income statement.

1.4.5 Financial liabilities

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

1.4.6 Setoff

Where there is a legally enforceable right of setoff 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.

1.7 **Inventories**

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

1.8 **Impairment of non-financial assets**

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

1.9 **Deferred taxation**

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

1.10 **Provisions**

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

1.11 **Insurance business**

1.11.1 Classification

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

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

1.11.2 Outstanding claims

Provision is made for the estimated final cost of all claims notified but not settled at the accounting date and claims arising from insurance contingencies that occurred before the close of the accounting period, but which had not been reported by that date.

1.11.3 Contingency reserve

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

1.11.4 Provision for unearned premiums

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

1.11.5 Reinsurance

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

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 **Treasury shares**

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

1.15 Employee benefits

1.15.1 Retirement plans

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

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

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

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

1.15.2 Post-retirement healthcare costs

The group has an obligation to provide post-retirement medical aid benefits by subsidising medical aid contributions of certain retired employees and ex-gratia pensioners, who joined the group prior to 1 August 1997. The post-retirement healthcare costs are assessed annually by a qualified independent actuary using the projected unit credit method. The cost of providing these subsidies and any actuarial gains and losses are recognised in the income statement immediately. The post-retirement healthcare benefit is measured as the present value of the estimated future cash outflows using an appropriate discount rate.

1.15.3 Share-based payments

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

1.15.4 Provision for leave pay

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

1.16 Borrowings

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

1.17 Trading cycle

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

1.18 Revenue recognition

Revenue comprises merchandise sales net of discounts, earned finance charges, earned TV and appliance service contracts, cartage and insurance premiums earned, net of reinsurance premiums paid. Value-added tax is excluded.

Revenue from the sale of merchandise is recognised on the date of delivery. Insurance premiums are recognised on a straight-line basis over the period of the contract, after an appropriate allowance is made for commission and reinsurance cost. 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 into account the effective yield on the assets. Dividends are recognised when the right to receive payment is established.

2. Critical accounting estimates and judgements

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

2.1 Impairment of receivables

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

2.2 Bad debts

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

2.3 **Share-based payment**

The share-based payment was valued in terms of an option pricing model. Details of the option pricing model and the assumptions used are detailed in note 17.2.

2.4 **Normal and deferred taxation**

Deferred tax assets are recognised on the basis described in note 1.9. The tax and deferred tax liabilities and assets are calculated using considered interpretations of the tax laws of the jurisdictions in which the group operates.

2.5 **Retirement benefits**

The underlying actuarial assumptions are set out in note 12.

2.6 **Useful lives and residual values of fixed assets**

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

	group			
	Land and building Rm	Leased equipment Rm	Vehicles and fixtures Rm	Total Rm
3. Property, plant and equipment				
As at 31 March 2007				
Opening net carrying value	**83.5**	**0.4**	**79.3**	**163.2**
Additions	**–**	**–**	**60.6**	**60.6**
Disposals	**–**	**–**	**(2.0)**	**(2.0)**
Depreciation	**(0.7)**	**(0.4)**	**(37.8)**	**(38.9)**
Closing net carrying value	**82.8**	**–**	**100.1**	**182.9**
Cost	**86.6**	**14.9**	**290.4**	**391.9**
Accumulated depreciation	**(3.8)**	**(14.9)**	**(190.3)**	**(209.0)**
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)

Computer equipment, with a carrying value of Rnil (2006: R0.4 million) acts as security for finance lease liabilities – refer capitalised finance lease liabilities note 10.

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

	group 2007 Rm	group 2006 Rm
4. **Investments – insurance business**		
Carrying value and market value		
Listed investments		
Listed shares – available-for-sale	**204.7**	159.4
Investment policy – available-for-sale	**83.9**	64.0
Gilts – available-for-sale	**256.4**	254.6
Unlisted Investments		
Money market – held-to-maturity (at director's valuation)	**115.4**	111.9
	660.4	589.9
Analysed as follows		
Long-term	**461.1**	478.0
Short-term	**199.3**	111.9
	660.4	589.9
Movement for the year		
Beginning of the year	**589.9**	505.8
Net additions to investments	**13.4**	18.6
Movement in fair value transferred to equity	**57.1**	65.5
End of the year	**660.4**	589.9

A register of listed investments is available for inspection at the company's registered office. Details of the nature of the investment policy appears in note 26. Regular purchases and sales of financial assets are accounted for on the trade date.

	group 2007 Rm	group 2006 Rm
5. **Inventories**		
Cost of merchandise	**252.7**	233.2
Less: provision for obsolescence	**(22.4)**	(20.6)
	230.3	212.6
6. **Trade and other receivables**		
Instalment sale and loan receivables	**3 317.0**	2 921.4
Provision for unearned finance charges and unearned maintenance income	**(572.7)**	(508.0)
Provision for doubtful debts	**(377.5)**	(368.0)
Provision for unearned insurance premiums	**(214.3)**	(184.8)
Unearned insurance premiums	**(346.7)**	(300.9)
Less: reinsurer's share of unearned premiums	**132.4**	116.1
Net instalment sale and loan receivables	**2 152.5**	1 860.6
Other receivables	**35.2**	35.9
	2 187.7	1 896.5

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

		group	
		2007	2006
		Rm	Rm
7.	**Share capital and premium**		
7.1	**Share capital and premium**		
	Share capital	**0.9**	0.9
	Share premium	**676.0**	676.0
		676.9	676.9
	Treasury shares:		
	Lewis Stores (Pty) Ltd	**(365.4)**	(151.9)
	Lewis Employee Share Incentive Scheme Trust	**(0.1)**	(0.1)
	Total share capital and premium	**311.4**	524.9
	The average market price paid for all the shares repurchased was R48.37, with the lowest price being R41.75 and the highest R57.00.		
		000's	000's
7.2	**Number of ordinary shares in issue**		
	Number of shares issued	**100 000**	100 000
	Treasury shares held by:		
	Lewis Stores (Pty) Ltd	**(7 507)**	(3 365)
	Lewis Employee Share Incentive Scheme Trust	**(1 401)**	(1 566)
	Number of shares in issue	**91 092**	95 069
		Rm	Rm
8.	**Other reserves**		
	Comprising:		
	Fair value reserve	**142.1**	89.5
	Foreign currency translation reserve	**(21.2)**	(26.6)
	Share-based payment reserve	**2.6**	0.3
	Other	**0.8**	0.8
		124.3	64.0
	Statutory insurance contingency reserve	**32.2**	28.0
		156.5	92.0
	Detailed movements in the other reserves are disclosed in the statement of changes in equity.		

	group	
	2007 **Rm**	2006 Rm
9. **Retained earnings**		
Comprising:		
Company	**3.4**	0.1
Consolidated subsidiaries	**2 055.9**	1 688.4
	2 059.3	1 688.5

Distribution of all reserves by South African subsidiaries would give rise to STC of R226.1 million (2006: R189.2 million).

Distribution by certain foreign subsidiaries will give rise to withholding taxes of R23.9 million (2006: R20.4 million).

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

	group	
	2007 **Rm**	2006 Rm
10. **Interest-bearing borrowings**		
Capitalised finance leases secured by computer equipment with a net book value of nil (2006: R0.4 million), bearing interest at rates linked to prime, repayable in the next year	**1.0**	1.8
Current portion of capitalised finance lease	**(1.0)**	(0.8)
	–	1.0
Total interest-bearing borrowings		
Long-term portion of interest-bearing borrowings	**–**	1.0
Current portion of interest-bearing borrowings	**1.0**	0.8
	1.0	1.8
11. **Deferred taxation**		
Balance at the beginning of the year	**(68.8)**	(36.7)
Movement for the year attributable to:		
Income statement credit	**(13.2)**	(41.0)
Deferred tax on fair value adjustment in equity	**4.5**	8.9
Balance at the end of the year	**(77.5)**	(68.8)
This balance comprises		
Capital allowances	**40.8**	35.9
Debtors allowances	**(83.3)**	(68.5)
Income and expense recognition	**1.9**	1.7
Other provisions	**(36.9)**	(37.9)
Balance at the end of the year	**(77.5)**	(68.8)
Disclosed as:		
Deferred tax asset	**(102.9)**	(89.7)
Deferred tax liability	**25.4**	20.9
	(77.5)	(68.8)

	group	
	2007	2006
	Rm	Rm
12. **Retirement benefits**		
Amounts recognised in the balance sheet		
Defined benefit retirement plan liability	**27.1**	34.6
Post-retirement healthcare benefits	**40.5**	41.2
	67.6	75.8

Retirement plans

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

The number of employees on these plans are as follows:	**No. of employees**	
Lewis Stores Group Pension Fund	**350**	361
Lewis Stores Retirement Pension Fund	**27**	25
SACCAWU Provident Fund	**593**	595
Lewis Stores Provident Fund	**2 863**	2 764
Lewis Stores Namibia Provident Fund	**100**	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 IAS 19 using the projected unit credit method. The latest valuation was carried out as at 1 January 2007.

Amounts recognised in the balance sheet		
Present value of obligations	**303.2**	269.9
Fair value of plan assets	**(305.6)**	(252.2)
	(2.4)	17.7
Unrecognised actuarial gains	**29.5**	16.9
Defined benefit retirement plan liability	**27.1**	34.6
Amounts recognised in the income statement		
Current service cost	**13.3**	8.9
Interest cost	**19.9**	21.4
Expected return on plan assets	**(22.5)**	(20.0)
Net actuarial losses recognised in the year	**–**	2.3
Total included in staff costs	**10.7**	12.6

	group	
	2007 **Rm**	2006 Rm
12. **Retirement benefits** *continued*		
Movement in retirement benefit liability		
Present value at the beginning of the year	**34.6**	37.7
Income statement charge	**10.7**	12.6
Contributions paid during the year	**(18.2)**	(15.7)
Present value at the end of the year	**27.1**	34.6
Present value of defined benefit obligations		
Beginning of year	**269.9**	242.5
Current service cost	**13.3**	8.9
Interest cost	**19.9**	21.4
Employee contributions	**1.9**	1.9
Benefit payments	**(24.6)**	(23.6)
Actuarial loss	**22.8**	18.8
End of year	**303.2**	269.9
Fair value of defined benefit plan assets		
Beginning of year	**252.2**	213.6
Employee contributions	**1.9**	1.9
Employer contributions	**18.2**	15.7
Expected return	**22.5**	20.0
Benefit payments	**(24.6)**	(23.6)
Actuarial gain	**35.4**	24.6
End of year	**305.6**	252.2
Principal actuarial assumptions used were as follows:		
Discount rate	**8.50%**	7.50%
Expected return on plan assets	**10.00%**	9.00%
Inflation rate	**5.25%**	4.50%
Future salary increases	**6.25%**	5.50%
Future pension increases	**5.25%**	4.50%
Assumptions regarding future mortality experience are based on advice, published statistics and experience. The average life expectancy in years of a pensioner retiring at age 65 on valuation date is as follows:		
Male	**15.9**	15.9
Female	**19.8**	19.8
Actual return on plan assets	**20.8%**	14.8%
The employer's future contribution is set on an annual basis in consultation with the fund's actuary.		
Defined contribution plans		
For defined contribution plans, the group pays contributions to the funds on a contractual basis. Once the contributions have been paid, the group has no further payment obligations.		
Defined contribution plan costs	**16.3**	14.7

	group	
	2007	2006
	Rm	Rm
12. **Retirement benefits** *continued*		
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 2007 by a qualified actuary in accordance with the requirements of IAS 19. The group has a commitment to meet these unfunded benefits.		
Amounts recognised in the income statement		
Current service cost	**0.8**	0.6
Interest cost	**2.8**	2.6
Actuarial (gain)/loss	**(2.4)**	5.4
Income statement charge	**1.2**	8.6
Movement in post-retirement healthcare liability		
Present value of liability at the beginning of the year	**41.2**	34.7
Charged to income statement	**1.2**	8.6
Employer benefit payments	**(1.9)**	(2.1)
Post-retirement healthcare benefits liability	**40.5**	41.2
Present value of post-retirement healthcare obligations		
Beginning of year	**41.2**	34.7
Current service cost	**0.8**	0.6
Interest cost	**2.8**	2.6
Benefit payments	**(1.9)**	(2.1)
Actuarial (gain)/loss	**(2.4)**	5.4
End of year	**40.5**	41.2
Principal actuarial assumptions used were as follows:		
Healthcare inflation rate	**4.75%**	4.50%
CPI inflation	**4.75%**	4.50%
Discount rate	**7.75%**	7.50%
Average retirement age (years)	**63**	63

Sensitivity	**Increase**	**Decrease**
The effects of a 1% movement in the assumed medical aid inflation rate were as follows:		
Effect on aggregate of the current service and interest cost	**0.6**	**(0.5)**
Effect on defined benefit obligation	**5.7**	**(4.7)**

	Obligation	**Experience adjustments gain/(loss)**
Trends		
The trend of the present value of the obligation and experience adjustments are as follows:		
2007	**40.5**	**2.4**
2006	41.2	4.9
2005	34.7	(2.7)
2004	30.8	2.0
2003	29.5	

	group	
	2007 Rm	2006 Rm
13. Trade and other payables		
Trade payables	**91.6**	110.2
Accruals and other payables	**94.0**	83.2
Due to reinsurers	**76.1**	66.9
Insurance provisions	**26.0**	23.2
	287.7	283.5
14. Overdrafts and short-term interest-bearing borrowings		
These borrowings are unsecured. The average closing interest rate on these borrowings was 9.25% (2006: 7.2%).	**429.3**	132.8
	429.3	132.8
15. Insurance premiums earned		
Gross insurance income	**653.3**	566.1
Reinsurance premiums	**(188.6)**	(165.7)
	464.7	400.4
16. Cost of merchandise sales		
Purchases	**1 211.7**	1 077.4
Movement in inventory	**(17.7)**	(56.8)
Cost of merchandise sales	**1 194.0**	1 020.6
Merchandise gross profit	**614.8**	547.2
17. Directors and employees		
17.1 **Employment costs**		
Salaries, wages, commissions and bonuses	**449.3**	398.3
Retirement benefit costs	**28.2**	35.9
Other employment costs	**4.1**	5.7
	481.6	439.9

17.2 **Share-based payments**

As the fair value of the services received cannot be measured reliably, the services have been valued by reference to the fair value of shares and options granted. The fair value of such options and shares is measured at the grant date using the Black-Scholes model.

In terms of IFRS 2, share-based payments are required to be expensed over the vesting period. Any accelerated vesting of the awards and options requires immediate recognition of the unrecognised portion.

In the prior year, 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 issued at date of listing vested immediately.

17. **Directors and employees** *continued*

17.2 **Share-based payments** *continued*

	group 2007 Rm	group 2006 Rm
Value of services provided:		
In respect of share awards and options granted subsequent to date of listing (refer note 17.3)	**4.0**	0.3
Charge relating to grants made at date of listing	**–**	58.4
Total share-based payment	**4.0**	58.7
	R	R
Significant assumptions used were:		
Weighted average share price	**46.59**	41.64
Weighted average exercise price (for options only)	**n/a**	41.60
Weighted average expected volatility	**38.3%**	28.0%
Weighted average expected dividend yield	**4.9%**	3.6%
Weighted average risk-free rate (bond yield curve at date of grant)	**8.6%**	7.9%

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

17.3 **Share incentive schemes**

The employee share incentive schemes are in operation for employees, executives and directors holding salaried employment office. The aggregate number of shares which may be utilised for these schemes shall not exceed 10% of the issued share capital of the company.

In the prior year, the GUS group made available 4% of its shareholding 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.

Lewis All Employee Share Scheme

Employees receive their share awards granted at date of listing if they have been in continued employment with the group until the vesting date. Share awards vest between two and four years after grant date. In terms of the scheme rules, the share awards and options vest immediately, should there be a change in control.

	No. of shares and options 2007	No. of shares and options 2006
Beginning of year	**–**	1 101 254
Granted	**–**	1 888
Forfeited	**–**	(51 825)
Vested	**–**	(1 051 317)
End of year	**–**	–

	group 2007 Rm	group 2006 Rm
17. Directors and employees *continued*		
17.3 Share incentive schemes *continued*		
Lewis Executive IPO Restricted Share Scheme		
Executives receive their share awards granted at date of listing if they have been in continued employment with the group until the vesting date. Share awards vest between three and five years after grant date. In terms of the scheme rules, the share awards and options vest immediately, should there be a change in control.		
Beginning of year	**–**	1 326 448
Granted	**–**	5 714
Forfeited	**–**	(32 702)
Vested	**–**	(1 299 460)
End of year	**–**	–
Lewis Executive Share Option Scheme		
Share options are granted to selected executives. The exercise price of the options is the average market price for the last three days, including the date of the grant or, in respect of options granted at date of listing, the listing price of the group's shares. Options vest between three and five years and must be exercised within 10 years after being granted. In terms of the scheme's rules, the options vest immediately, should there be a change in control.		
Beginning of year	**841 271**	807 829
Granted	**–**	188 276
Forfeited	**(89 432)**	(71 123)
Vested and exercised by payment of consideration	**(89 423)**	(83 711)
End of year	**662 416**	841 271
	R	R
Average exercise price of outstanding options	**28.00**	30.89

Lewis Executive Performance Scheme

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

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

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

	group	
	2007	2006
	No. of shares and options	
17. **Directors and employees** *continued*		
17.3 **Share incentive schemes** *continued*		
Lewis Executive Performance Scheme *continued*		
Beginning of year	**–**	–
Granted	**205 400**	–
Forfeited	**(19 761)**	–
Vested	**–**	–
End of year	**185 639**	–
Lewis Co-investment Scheme		
Senior executives are eligible for an annual bonus based on achievement of performance targets. These eligible executives can elect to invest all or part of their net bonus in the group's shares ("invested shares").		
These shares are deferred for three years and matching shares equal to the before tax bonus are awarded for no consideration at the end of the period. The matching share award will lapse, should the executive terminate his or her employment before the completion of the three-year period other than in the event of death, ill health, retirement or retrenchment.		
The grant in respect of the matching share option is as follows:		
Beginning of year	**–**	–
Granted	**111 329**	–
Forfeited	**(14 672)**	–
Vested	**(7 335)**	–
End of year	**89 322**	–
Invested shares paid for through the investment of executives' net bonuses amounted to 53 592 shares. These shares are held by the Trust on the executives' behalf.		

	group	
	2007	2006
	R	R
17. **Directors and employees** *continued*		
17.4 **Directors' emoluments**		
Non-executive directors		
Fees as directors		
D M Nurek	**440 000**	225 000
H Saven	**310 000**	215 000
B van der Ross	**230 000**	130 000
F Abrahams	**210 000**	67 000
D Tyler (payable to GUS Holdings BV)	**–**	43 500
	1 190 000	680 500
Executive Director – A J Smart (paid by subsidiary)		
Salary	**2 000 000**	1 690 000
Bonuses	**1 690 000**	1 444 670
Contributions to pension scheme	**320 000**	270 400
Contribution to medical aid	**37 362**	32 736
Other material benefits	**158 400**	117 744
	4 205 762	3 555 550
	No. of shares and options	
Outstanding share awards and options – A J Smart		
Share options awarded under the Lewis Executive Share Option Scheme vested as a consequence of the disposal of its controlling interest by GUS in the prior year. The exercise price of these options are R28.00. In terms of a written undertaking, A J Smart agreed not to dispose of any shares he may become entitled to under these awards prior to 1 October 2007.	**219 428**	219 428
Share award under Lewis Executive Performance Scheme granted on 30 June 2006 (refer to note 17.3).	**44 573**	–
Matching share options under Lewis Co-investment Scheme granted on 30 June 2006 (refer note 17.3). The Trust holds 21 806 shares on his behalf by virtue of his investment of his net bonus for 2006 into the scheme.	**36 344**	–

	group	
	2007	2006
	Rm	Rm
18. **Lease commitments**		
The group leases the majority of its properties under operating leases. The lease agreements of certain store premises provide for a minimum annual rental payment and additional payments determined on the basis of turnover.		
Payments on a cash flow basis:		
Within one year	**78.1**	63.9
Two to five years	**208.3**	109.6
Over five years	**1.2**	2.2
	287.6	175.7
Payments on a straight-line basis:		
Within one year	**81.9**	64.0
Two to five years	**196.3**	103.5
Over five years	**1.0**	1.9
	279.2	169.4
19. **Operating profit**		
Stated after:		
Surplus on disposal of property, plant and equipment	**3.8**	6.0
Depreciation		
Owned assets	**38.5**	33.2
Leased assets	**0.4**	1.8
	38.9	35.0
Fees payable:		
Investment management fee – insurance investments	**1.6**	1.4
Outsourcing of IT function	**27.7**	24.4
	29.3	25.8
Operating leases – premises		
Operating lease payments on a cash flow basis	**92.6**	80.9
Lease adjustment	**2.1**	(2.5)
Operating leases on a straight-line basis	**94.7**	78.4
Auditors' remuneration		
Audit fees – current year	**1.0**	1.0
– prior year underprovision	**0.1**	0.1
Other services	**0.6**	0.7
	1.7	1.8

notes to the annual financial statements for the year ended 31 March 2007 *continued*

	group	
	2007 Rm	2006 Rm
20. **Investment income**		
Interest – insurance business	**35.5**	30.8
Dividends from listed investments – insurance business	**5.6**	4.6
Realised profit on disposal of insurance investments	**1.6**	5.8
Impairment of available-for-sale investments	**–**	(12.3)
	42.7	28.9
21. **Net finance costs**		
21.1 **Interest paid**		
Capitalised finance leases	**–**	0.2
Bank loans and overdrafts	**26.9**	12.5
Other	**2.7**	–
	29.6	12.7
21.2 **Interest earned**		
Bank	**(2.7)**	(5.9)
Other	**(1.3)**	–
	(4.0)	(5.9)
21.3 **Forward exchange contracts**		
Realised	**(13.6)**	4.0
Unrealised	**0.4**	2.0
	(13.2)	6.0
21.4 **Net finance costs**	**12.4**	12.8
22. **Taxation**		
22.1 **Taxation charge**		
South Africa	**275.2**	224.2
Foreign	**16.7**	13.4
Taxation per income statement	**291.9**	237.6
Comprising:		
Normal taxation		
Current year	**270.3**	261.1
Prior year	**4.9**	(2.2)
Deferred taxation		
Current year	**(9.2)**	(42.0)
Prior year	**(4.0)**	(0.8)
Rate change	**–**	1.8
Secondary Tax on Companies	**29.9**	19.7
Taxation per income statement	**291.9**	237.6

	group	
	2007	2006
	Rm	Rm
22. **Taxation** *continued*		
22.2 **The rate of taxation on profit is reconciled as follows:**		
Profit before taxation	**890.2**	686.3
Taxation calculated at a tax rate of 29% (2006: 29%)	**258.2**	199.0
Disallowed expenditure/(exempt income)	**2.9**	20.1
Secondary Tax on Companies	**29.9**	19.7
Prior years	**0.9**	(3.0)
Rate change	**–**	1.8
Taxation per income statement	**291.9**	237.6
Effective taxation rate	**32.8%**	34.6%
	000's	000's
23. **Earnings per share**		
23.1 **Weighted average number of shares**		
Weighted average shares for earnings and headline earnings per share	**92 062**	97 300
Dilution resulting from share awards and options outstanding	**396**	201
Weighted average shares for diluted earnings and headline earnings per share	**92 458**	97 501
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.		
	Rm	Rm
23.2 **Headline earnings**		
Attributable earnings	**598.3**	448.7
Profit on disposal of property, plant and equipment	**(3.8)**	(6.0)
Profit on disposal of available-for-sale investments	**(1.6)**	(5.8)
Impairment of available-for-sale investments	**–**	12.3
Taxation	**1.3**	2.8
Headline earnings	**594.2**	452.0
	Cents	Cents
23.3 **Earnings per share**		
Earnings per share	**649.9**	461.2
Fully diluted earnings per share	**647.1**	460.2
23.4 **Headline earnings per share**		
Headline earnings per share	**645.4**	464.5
Fully diluted headline earnings per share	**642.7**	463.6

notes to the annual financial statements for the year ended 31 March 2007 *continued*

	group	
	2007	2006
	Rm	Rm
24. Dividends paid		
Dividend No. 2 declared on 16 May 2005 and paid on 25 July 2005	**–**	74.0
Dividend No. 3 declared on 14 November 2005 and paid on 30 January 2006	**–**	88.0
Dividend No. 4 declared on 22 May 2006 and paid on 24 July 2006	**137.0**	
Dividend No. 5 declared on 13 November 2006 and paid on 29 January 2007	**116.0**	
Dividends received on treasury shares:		
Lewis Stores (Pty) Ltd	**(17.3)**	(2.5)
Lewis Employee Share Incentive Scheme Trust	**(3.9)**	(2.6)
	231.8	156.9
25. Notes to the cash flow statements		
25.1 **Cash generated from operations**		
Operating profit	**859.9**	670.2
Adjusted for:		
Share-based payments	**4.0**	58.7
Depreciation	**38.9**	35.0
Surplus on disposal of property, plant and equipment	**(3.8)**	(6.0)
Movement in debtors impairment provision	**9.5**	(17.4)
Movement in retirement benefits provision	**(8.2)**	3.4
Movement in other provisions	**11.1**	9.8
Changes in working capital:		
Increase in inventories	**(20.1)**	(62.0)
Increase in trade and other receivables	**(295.3)**	(152.2)
(Decrease)/Increase in trade and other payables	**(4.5)**	53.7
	591.5	593.2
25.2 **Taxation paid**		
Amount owing at the beginning of the year	**(159.8)**	(125.6)
Amount charged to the income statement	**(291.9)**	(237.6)
Adjustment for deferred taxation	**(13.2)**	(41.0)
Amount owing at the end of the year	**61.7**	159.8
	(403.2)	(244.4)
25.3 **Cash and cash equivalents**		
Cash deposits and cash on hand	**35.7**	28.1
Overdrafts and short-term interest-bearing borrowings	**(429.3)**	(132.8)
Cash and cash equivalents	**(393.6)**	(104.7)

26. **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.

26.1 **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.

26.2 **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.

In order to hedge exposures in the interest rate profile of existing and additional peak borrowings of the group, the group may make use of interest derivatives and other hedging instruments in terms of limits specified in the group's treasury policy approved by the Audit and Risk Committee. For the year ended 31 March 2007, the group entered into a zero-premium interest rate collar with the counterparty being a high-quality financial institution. The value of the borrowings hedged and the fair value of these contracts as at 31 March 2007 are as follows:

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

26. **Financial risk management** *continued*

26.2 **Interest rate risk management** *continued*

The interest rate profile of the group's financial instruments are as follows:

	Term of investment	Average closing effective interest rate %	Floating or fixed	Carrying value Rm
2007				
Assets				
Gross instalment sale and loan receivables	Up to 2 years	29.70%	Fixed	**3 317.0**
Liabilities				
Finance leases	3 years	9.00%	Floating	**1.0**
Overdrafts and short-term borrowings	Varies (refer note 14)	9.25%	Floating	**429.3**
2006				
Assets				
Gross instalment sale receivables	Up to 2 years	28.30%	Fixed	2 921.4
Liabilities				
Finance leases	3 years	7.00%	Floating	1.8
Overdrafts and short-term borrowings	Varies (refer note 14)	7.20%	Floating	132.8

26.3 **Foreign exchange risk management**

During the year, 24.6% (2006: 13.7%) 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
2007	Less than	Rates vary from			
US dollar	4 months	R7.13 to R7.45	**7.9**	**57.4**	**0.4**
2006	Less than	Rates vary from			
US dollar	9 months	R6.08 to R6.48	10.3	64.1	2.0

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 to note 26.6.

Net investment in foreign entities

The currency exposure is limited to the net investment in Botswana of R95.1 million (2006: R80.4 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.

	group	
	2007 **Rm**	2006 Rm
26. **Financial risk management** *continued*		
26.4 **Liquidity risk**		
Total banking facilities	**900.0**	900.0
Less: drawn portion of facility	**(429.3)**	(132.8)
Plus: cash on hand	**35.7**	28.1
Available cash resources and facilities	**506.4**	795.3

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.

Subsequent to year-end, additional facilities of R300 million have been negotiated with the banks.

26.5 **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 three 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.

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

	group 2007 Rm	group 2006 Rm
26. Financial risk management *continued*		
26.5 Insurance risk *continued*		
Movement in provisions:		
(i) **Unearned premium reserve**		
Opening balance	**184.8**	154.4
Movement during year	**29.5**	30.4
Closing balance	**214.3**	184.8
Comprising:		
Unearned premiums	**346.7**	300.9
Less: reinsurers' share of provision	**(132.4)**	(116.1)
Net balance	**214.3**	184.8
(ii) **Insurance provisions**		
Insurance provisions include outstanding claims and IBNR reserve.		
Opening balance	**23.2**	19.6
Movement during year	**2.8**	3.6
Closing balance	**26.0**	23.2
Comprising:		
Gross insurance provisions	**39.3**	34.8
Less: reinsurers' share of provision	**(13.3)**	(11.6)
Net balance	**26.0**	23.2

	Average closing rate of interest %	0–12 months	2–5 years	>5 years	Total
26.6 Maturity profile of financial instruments					
The maturity profiles of financial instruments at 31 March 2007 are as follows:					
Assets					
Available-for-sale insurance investments		83.9	256.4	204.7	545.0
Held-to-maturity insurance investments	8.00%	115.4	–	–	115.4
Trade and other receivables**	29.70%	2 187.7	–	–	2 187.7
Cash on hand and deposits	8.40%	35.7	–	–	35.7
Liabilities					
Interest-bearing borrowings	9.00%	(1.0)	–	–	(1.0)
Bank overdrafts and short-term borrowings	9.25%	(429.3)	–	–	(429.3)
Trade and other payables		(287.7)	–	–	(287.7)
		1 704.7	256.4	204.7	2 165.8

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

26. **Financial risk management** *continued*

26.6 **Maturity profile of financial instruments** *continued*

On 31 March 2007 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 R14.4 million (2006: R18.2 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.

	group	
	2007 Rm	2006 Rm
27. **Remuneration of executives**		
Salary	**7.7**	6.2
Bonus	**5.7**	4.3
Termination benefits	**1.6**	–
Retirement and medical contributions	**1.5**	1.3
Other benefits	**0.6**	0.4
	17.1	12.2
Key executives comprise the directors of Lewis Stores (Pty) Ltd, the main operating subsidiary.		
28. **Contingencies**		
Bank and other guarantees given by the group to third parties	**7.6**	7.5
The directors are of the opinion that no loss will be incurred on these guarantees.		
29. **Capital commitments**		
There were no material capital commitments contracted for or authorised and contracted at the end of the period under review (2006: Rnil).		

	2007 Merchandise Rm	2007 Insurance Rm	2007 Group Rm	2006 Merchandise Rm	2006 Insurance Rm	2006 Group Rm
30. Segmental reporting						
30.1 By business unit						
Revenue	**2 858.8**	**464.7**	**3 323.5**	2 474.0	400.5	2 874.5
Operating profit[1]	**676.5**	**183.4**	**859.9**	564.9	163.7	728.6
Operating assets[2]	**2 622.7**	**674.3**	**3 297.0**	2 288.3	602.0	2 890.3
Operating liabilities	**180.7**	**107.0**	**287.7**	191.4	92.1	283.5
Capital expenditure	**60.6**	**–**	**60.6**	39.8	–	39.8
Depreciation	**38.9**	**–**	**38.9**	35.0	–	35.0

30.2 Geographical	2007 South Africa Rm	2007 Other Rm	2007 Group Rm	2006 South Africa Rm	2006 Other Rm	2006 Group Rm
Revenue	**2 982.9**	**340.6**	**3 323.5**	2 575.0	299.5	2 874.5
Operating assets[2]	**3 027.6**	**269.4**	**3 297.0**	2 656.3	234.0	2 890.3
Capital expenditure	**57.5**	**3.1**	**60.6**	36.9	2.9	39.8

[1] Operating profit for 2006 excludes share-based payments of R58.4 million relating to the share awards and options granted at date of listing.

[2] Operating assets does not include deferred tax asset of R102.9 million (2006: R89.7 million).

30.3 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.

company **balance** sheet
at 31 March 2007

		company	
	Notes	**2007 Rm**	2006 Rm
Assets			
Non-current assets			
Interest in subsidiaries	2	**2 804.9**	2 801.4
Total assets		**2 804.9**	2 801.4
Equity and liabilities			
Capital and reserves			
Share capital and premium	3	**2 800.0**	2 800.0
Retained earnings		**3.4**	0.1
		2 803.4	2 800.1
Current liabilities			
Trade and other payables		**1.5**	1.3
Total equity and liabilities		**2 804.9**	2 801.4

company **income** statement
for the year ended 31 March 2007

		company	
	Notes	**2007 Rm**	2006 Rm
Revenue	4	**260.6**	165.2
Operating costs		**(4.3)**	(3.3)
Profit before taxation	5	**256.3**	161.9
Taxation	6	**–**	–
Net profit attributable to ordinary shareholders		**256.3**	161.9

company statement of **changes in equity** for the year ended 31 March 2007

	company		
	Share capital and premium Rm	Retained earnings Rm	Total Rm
Balance as at 1 April 2005	2 800.0	0.2	2 800.2
Net profit attributable to ordinary shareholders	–	161.9	161.9
Dividends paid	–	(162.0)	(162.0)
Balance at 31 March 2006	2 800.0	0.1	2 800.1
Net profit attributable to ordinary shareholders	–	256.3	256.3
Dividends paid	–	(253.0)	(253.0)
Balance at 31 March 2007	**2 800.0**	**3.4**	**2 803.4**

company **cash flow** statement
for the year ended 31 March 2007

		company	
	Notes	**2007 Rm**	2006 Rm
Cash flow from operating activities			
Cash generated from operations	7	**(4.1)**	(3.9)
Dividends received		**260.6**	165.2
Cash retained from operating activities		**256.5**	161.3
Cash utilised in investing activities			
Loans to subsidiary companies		**(3.5)**	0.7
Net cash (outflow)/inflow from investing activities		**(3.5)**	0.7
Cash effects of financing activities			
Dividends paid		**(253.0)**	(162.0)
Net cash outflow from financing activities		**(253.0)**	(162.0)
Net increase/(decrease) in cash and cash equivalents		**–**	–
Cash and cash equivalents at the beginning of the year		**–**	–
Cash and cash equivalents at the end of the year		**–**	–

notes to the company annual financial statements for the year ended 31 March 2007

	company 2007 Rm	company 2006 Rm
1. Accounting policies		
The financial statements have been prepared on the historical cost basis and in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act. The accounting policies used in the preparation of these financial statements are set out on pages 70 to 76.		
2. Interest in subsidiaries		
Shares at cost	**2 800.0**	2 800.0
Indebtedness	**4.9**	1.4
	2 804.9	2 801.4
3. Share capital and premium		
Authorised		
150 000 000 ordinary shares of 1c each	**1.5**	1.5
Issued		
100 000 000 ordinary shares of 1c each	**1.0**	1.0
Share premium	**2 799.0**	2 799.0
Total share capital and premium	**2 800.0**	2 800.0
4. Revenue		
Dividends received	**260.6**	165.2
	260.6	165.2
	R	R
5. Operating profit		
Stated after:		
Audit fees – current year	**40 000**	40 000
Other services	**44 100**	–
	84 100	40 000
	Rm	Rm
6. Taxation		
Taxation	**–**	–
	–	–
The rate of taxation on profit is reconciled as follows:		
Profit before taxation	**256.3**	161.9
Taxation calculated at a tax rate of 29%	**74.3**	47.0
Disallowed expenditure/(exempt income)	**(74.3)**	(47.0)
Taxation per income statement	**–**	–
7. Cash generated from operations		
Profit before taxation	**256.3**	161.9
Dividends received	**(260.6)**	(165.2)
Increase/(Decrease) in trade and other payables	**0.2**	(0.6)
	(4.1)	(3.9)

interest in subsidiary companies

for the year ended 31 March 2007

	Nature of business	2007 Carrying value of subsidiaries Rm	2007 % Holding	2006 Carrying value of subsidiaries Rm	2006 % Holding
Directly held					
Lewis Stores (Pty) Ltd	F	**2 800.0**	**100%**	2 800.0	100%
Indirectly held					
Incorporated in South Africa					
Kingtimm (Pty) Ltd	L		**100%**		100%
Lifestyle Living (Pty) Ltd	F		**100%**		100%
M Lewis Estates (Kenilworth) (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		**4.9**		1.4	
Interest in subsidiaries		**2 804.9**		2 801.4	

F Furniture dealer
I Insurance company
M Management services company
L Company holding property leases
D Company deregistered in 2007

shareholder's information

	Number of shareholders Total	%	Number of shares Total	%
Shareholders' spread as at 31 March 2007				
1 – 1 000 shares	795	44.76%	406 348.00	0.41%
1 001 – 10 000 shares	540	30.41%	1 964 541.00	1.96%
10 001 – 100 000 shares	310	17.45%	11 569 485.00	11.57%
100 001 – 1 000 000 shares	114	6.42%	35 126 912.00	35.13%
1 000 001 shares and over	17	0.96%	50 932 714.00	50.93%
	1 776	100.00%	100 000 000.00	100.00%

Distribution of shareholders as at 31 March 2007	% of holding
Public:	
Pension funds	34.73%
Unit trusts	27.08%
Insurance companies	9.75%
Other	19.28%
Non-public:	
Lewis Stores (Pty) Ltd	7.51%
Lewis Employee Incentive Scheme Trust	1.40%
Directors	0.25%
	100.00%

Analysis of shareholding as at 31 March 2007	% of holding
Beneficial holders (holding greater than 3%)	
Public Investment Corporation	16.23%
Lewis Stores (Pty) Ltd	7.51%
Metropolitan Life	4.27%
Investment Solutions	4.07%
By fund manager (holdings greater than 5%)	
Investec Asset Management	10.41%
Coronation Fund Managers	8.32%
Old Mutual Asset Managers	6.03%
Metropolitan Asset Managers	5.79%

Shareholder's calender	
Financial year-end	31 March 2007
Preliminary profit announcement	21 May 2007
Final dividend declared	21 May 2007
Annual report	29 June 2007
Last day to trade "cum" the dividend	13 July 2007
Date trading commences "ex" dividend	16 July 2007
Record date	20 July 2007
Date of dividend payment	23 July 2007
Annual general meeting	3 August 2007
Interim profit announcement	12 November 2007

notes

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 third annual general meeting of shareholders ("AGM") of Lewis Group Limited for the year ended 31 March 2007 will be held at Lewis Group head office, 53A Victoria Road, Woodstock, Cape Town at 10:00 on Friday, 3 August 2007. **Registration will start at 9:15.** 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 2007 accompanying this notice be accepted and approved."

2. **Ordinary resolution number 2**

   Election of directors

   Mr David Morris Nurek, Mr Benedict James van der Ross and Mr Leslie Alan Davies retire in accordance with the company's Articles of Association. Mr David Morris Nurek, Mr Benedict James van der Ross and Mr Leslie Alan Davies offer themselves for re-election.

   David Morris Nurek [age 57]

   Benedict James van der Ross [age 60]

   Leslie Alan Davies [age 51]

   Brief CVs of the directors are on pages 9 and 21.

Appointment of David Morris Nurek as director

2.1 "Resolved that David Morris Nurek be and is hereby elected as director of the company."

Appointment of Benedict James van der Ross as director

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

Appointment of Leslie Alan Davies as director

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

3. **Ordinary resolution number 3**

   Approval of directors' remuneration for the year ended 31 March 2007

   "Resolved that the remuneration of the directors for the year ended 31 March 2007 as reflected on page 88 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 2008

   "Resolved that the fees of the directors as reflected below be approved for the year to 31 March 2008:

Chairman	R330 000
Director	R154 000

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

Committee chairman	R154 000
Committee member	R66 000

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

Committee chairman	R66 000
Committee member	R33 000

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

Committee chairman	R66 000
Committee member	R33 000"

5. **Ordinary resolution number 5**

   Approval of reappointment of auditors

   "Resolved that Pricewaterhouse-Coopers 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, subject also to the JSE Listings Requirements as presently constituted and which may be amended from time to time."

   Additional information required by the JSE Listings Requirements

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

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

Statement by the Board of Directors of the company

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

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

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

- the company and its subsidiaries will, after the acquisition, be able to pay their debts as they become due in the ordinary course of business for the next 12 (twelve) months after the date of this notice of annual general meeting;

- the consolidated assets of the company and its subsidiaries, fairly valued and recognised and measured in accordance with the accounting policies used in the latest audited financial statements, will, after the acquisition, be in excess of the consolidated liabilities of the company and its subsidiaries for the next 12 (twelve) months after the date of this notice of annual general meeting;

- the issued share capital and reserves of the company and its subsidiaries will, after the acquisition, be adequate for the ordinary business purposes of the company or its subsidiaries for the next 12 (twelve) months after the date of this notice of annual general meeting; and

- the working capital available to the company and its subsidiaries will, after the acquisition, be sufficient for ordinary business purposes of the company for the next 12 (twelve) months after the date of this notice of annual general meeting;

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

Reason for and effect of special resolution number 1

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

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

8. **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."

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 9 and 21;
- the major shareholders of the company on page 103;
- the directors' shareholding in the company on pages 64 and 103; and
- the share capital of the company in note 3 on page 101 and an analysis of the shareholders on page 103.

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 2007 and the reporting date.

The directors, whose names are given on page 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's sub-register) then:

- you may attend and vote at the annual general meeting; alternatively
- you may appoint a proxy to represent you at the annual general meeting by completing the attached form of proxy and returning it to the company's transfer 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.

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

21 May 2007

form of **proxy**

Lewis Group Limited
(Incorporated in the Republic of South Africa)
(Registration number: 2004/009817/06)
Share code: LEW ISIN: ZAE000058236
("Lewis Group" or "the company")

For use at the annual general meeting of the company to be held at Lewis Group Head Office, 53A Victoria Road, Woodstock on Friday, 3 August 2007 ("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 David Morris Nurek as director			
Ordinary resolution number 2.2 Election of Benedict James van der Ross as director			
Ordinary resolution number 2.3 Election of Leslie Alan Davies as director			
Ordinary resolution number 3 Approval of directors' remuneration for the year 31 March 2007			
Ordinary resolution number 4 Approval of directors' fees for the year to 31 March 2008			
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 2007

Signature/s

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

Assisted by

(where applicable)

Telephone number:

Please read the notes on reverse side.

motiv

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, 2 August 2007.

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.