Lewis Group Ltd

annual report **2009**

corporate profile

"Brand strength and growth performs through all cycles."

Lewis Group is a leading retailer of household furniture, electrical appliances and home electronics, which are mainly sold on credit to the rapidly expanding middle income market through the Lewis, Best Home and Electric and Lifestyle Living brands.

The retail brands are supported by the financial services arm, Monarch Insurance, which provides short-term insurance to the group's credit customers.

Since the first store opened in 1934 in Woodstock, Cape Town, the group has expanded to a network of 535 stores. This includes stores across all major metropolitan areas as well as a strong presence in rural areas in South Africa, with 49 stores in the neighbouring countries of Botswana, Lesotho, Namibia and Swaziland.

Lewis is the country's single largest retail furniture brand and the group has a customer base of close to 700 000.

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

investment proposition

Lewis Group offers an attractive proposition to investors seeking exposure to the country's retail sector or more particularly the highly competitive furniture retail industry. The following points motivate an investment case for Lewis Group:

- Consistent and proven business model
- Focused on core business of furniture retailing
  - Differentiated and exclusive merchandise ranges
  - Lewis one of the country's most recognisable furniture brands
- Primary focus is on high growth LSM 4 – 7 target market
- Store-based customer focus
  - Long-term customer relationships
  - Integrated credit and marketing strategies
  - High level of repeat business through re-serve programme
  - Efficient cash collection process
- Credit offered across all brands
  - Ability to sell insurance products to customer base
- Centralised credit approval and granting process
  - Advanced application and behavioural risk scorecards
  - Immediate response to credit applications
- Track record of superior financial performance
  - Historically high operating margins
  - Low cost structure
  - Generates strong cash flows
- Extensive store network
  - Presence in all major metropolitan and rural areas
  - Stores conveniently located for needs of target customers
  - Positioned to benefit from competitor brand and store closures
  - New format Lewis store creates further growth opportunities
- Highly experienced management team

financial highlights

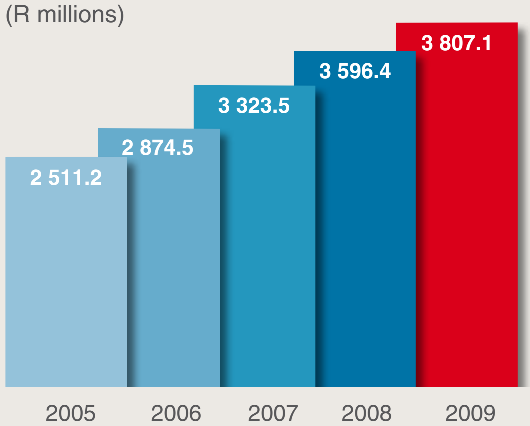
Revenue increased by **5.9%**

Headline earnings per share down by **7.6%**

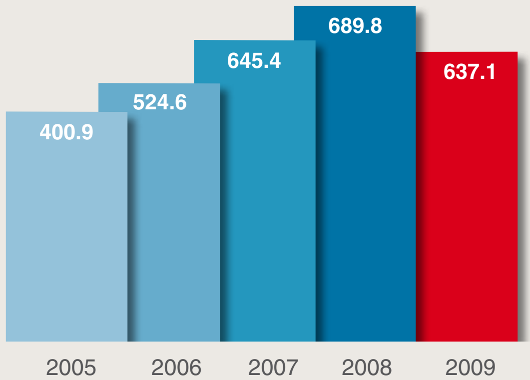
Cash flow from operations increased by **20.4%**

Dividend per share maintained

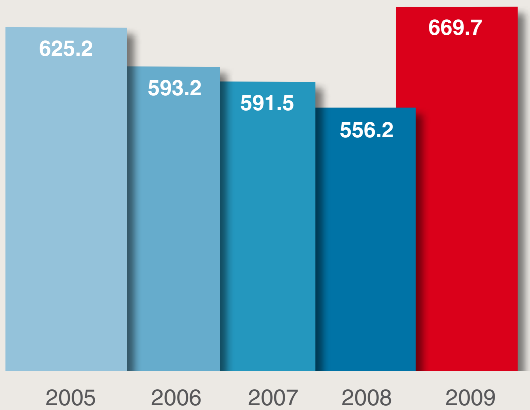
Revenue
(R millions)



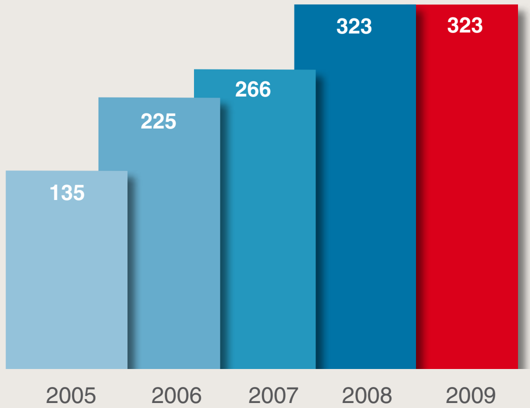
Headline EPS
(cents)



Cash flow
(R millions)



Dividends declared
(cents)



customer-focused business model

Lewis Group operates a decentralised, store-based business model where all aspects of the relationship with the customer are managed by the staff in the stores. This model has been consistently applied since the inception of the business and is based on the premise that the selling of furniture and the provision of credit are inter-dependent.

The only functions that are not managed at a store level are the credit approval and granting processes. This is operated centrally to ensure that credit risk policies are consistently applied across the group and to all customers, and removes any subjectivity in the credit-granting process. Credit applications are submitted by the stores to head office where industry-leading technology, together with application risk and behavioural scorecards, is used to determine the creditworthiness of a customer. Decisions on credit applications are then relayed to stores within an average of just nine seconds.

The following diagram details the role of the store in managing the customer relationship, highlighting the efficiency of the business model.

Store

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

Merchandise sales and credit applications

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

Collections

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

Re-serve programme

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

Distribution and supply chain

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

five-year review

	2009 Rm	2008 Rm	2007 Rm	2006 Rm	2005 Rm
Group Income Statements					
Revenue	**3 807.1**	3 596.4	3 323.5	2 874.5	2 511.2
Cost of sales	**(1 318.3)**	(1 272.1)	(1 194.0)	(1 020.6)	(885.0)
Operating costs	**(1 648.5)**	(1 393.9)	(1 269.6)	(1 125.3)	(1 032.7)
Operating profit	**840.3**	930.4	859.9	728.6	593.5
Investment income	**76.9**	71.7	42.7	28.9	37.6
Profit before interest and taxes (EBITA)	**917.2**	1 002.1	902.6	757.5	631.1
Finance costs	**(86.5)**	(56.8)	(12.4)	(12.8)	(42.7)
Net profit before tax	**830.7**	945.3	890.2	744.7	588.4
Taxation	**(263.7)**	(303.0)	(291.9)	(237.6)	(182.4)
Attributable profit	**567.0**	642.3	598.3	507.1	406.0
Headline earnings	**562.0**	617.9	594.2	510.4	400.9
Group Balance Sheets					
Assets					
Non-current	**764.8**	706.0	746.9	730.9	608.8
Property, plant and equipment	**229.7**	200.6	182.9	163.2	159.5
Investments – insurance business	**535.1**	505.4	461.1	478.0	400.6
Deferred tax asset	**–**	–	102.9	89.7	48.7
Current	**3 425.6**	3 101.9	2 653.0	2 249.1	2 066.9
Investments – insurance business	**199.1**	159.5	199.3	111.9	105.2
Inventories	**228.0**	230.4	230.3	212.6	155.8
Trade and other receivables	**2 943.7**	2 615.6	2 187.7	1 896.5	1 750.6
Taxation	**–**	29.6	–	–	–
Cash and cash equivalents	**54.8**	66.8	35.7	28.1	55.3
Total assets	**4 190.4**	3 807.9	3 399.9	2 980.0	2 675.7
Equity and liabilities					
Capital and reserves	**2 939.9**	2 730.0	2 527.2	2 305.4	2 059.6
Non-current liabilities	**206.9**	72.1	93.0	97.7	86.1
Interest-bearing borrowings	**100.0**	–	–	1.0	1.7
Retirement benefits	**53.9**	57.7	67.6	75.8	72.4
Deferred taxation	**53.0**	14.4	25.4	20.9	12.0
Current liabilities	**1 043.6**	1 005.8	779.7	576.9	530.0
Trade and other payables	**404.1**	302.4	287.7	283.5	225.2
Current portion of interest-bearing borrowings	**–**	–	1.0	0.8	7.2
Short-term borrowings	**637.0**	703.4	429.3	132.8	172.0
Taxation	**2.5**	–	61.7	159.8	125.6
Total equity and liabilities	**4 190.4**	3 807.9	3 399.9	2 980.0	2 675.7

five-year review *continued*

	2009	2008	2007	2006	2005
	Rm	Rm	Rm	Rm	Rm
Group Cash Flow Statements					
Cash generated from operations	**669.7**	556.2	591.5	593.2	625.2
Dividends and interest received	**96.3**	61.0	58.7	41.3	46.9
Interest paid	**(108.5)**	(68.2)	(30.0)	(18.7)	(319.9)
Tax paid	**(185.6)**	(290.4)	(403.2)	(244.4)	(207.7)
Net cash retained from operations	**471.9**	258.6	217.0	371.4	144.5
Cash utilised in investing activities	**(183.0)**	(97.3)	(66.6)	(45.5)	(53.0)
Net effect of financing activities	**(234.5)**	(404.3)	(439.3)	(313.9)	(567.0)
Net cash increase/(decrease) in cash and cash equivalents	**54.4**	(243.0)	(288.9)	12.0	(475.5)

	2009	2008	2007	2006	2005
Ratios and Statistics					
Returns					
Return on average shareholders' funds (after-tax)	**20.0%**	24.4%	24.8%	23.2%	22.1%
Return on average capital employed (after-tax)	**17.7%**	21.4%	22.5%	22.1%	18.5%
Return on average assets managed (pre-tax)	**22.9%**	27.8%	28.3%	26.8%	23.0%
Margins					
Gross margin	**31.3%**	32.7%	34.0%	34.9%	34.5%
Operating margin	**22.1%**	25.9%	25.9%	25.3%	23.6%
Productivity					
Number of stores	**535**	525	508	490	475
Revenue per store (R 000's)	**7 116**	6 850	6 542	5 866	5 287
Operating profit per store (R 000's)	**1 571**	1 772	1 693	1 487	1 249
Average number of employees (permanent employees only)	**6 480**	6 696	6 310	5 879	5 713
Revenue per employee (R 000's)	**588**	537	527	489	440
Operating profit per employee (R 000's)	**130**	139	136	124	104
Trading space (sqm)	**223 102**	220 236	215 076	210 201	207 595
Revenue per sqm (R)	**17 064**	16 330	15 453	13 675	12 097
Operating profit per sqm (R)	**3 766**	4 225	3 998	3 466	2 859
Inventory turn (times)	**5.8**	5.5	5.2	4.8	5.7
Credit ratios					
Cash and short-term sales as a % of total sales	**35.7%**	33.1%	30.7%	29.9%	30.1%
Bad debts as a % of net trade receivables	**6.0%**	5.9%	5.5%	6.0%	5.9%
Debtor costs as a % of net trade receivables	**10.0%**	6.5%	5.8%	5.2%	4.8%
Debtors' impairment provision as a % of net trade receivables	**15.7%**	13.5%	14.9%	16.5%	18.3%
Arrear instalments on satisfactory paid accounts as a % of net debtors	**9.5%**	10.6%	10.7%	10.5%	11.2%
Arrear instalments on slow paying and non-performing accounts as a % of net debtors	**20.9%**	19.3%	19.0%	20.6%	23.3%
Doubtful debts provision on non-performing accounts	**71.3%**	69.6%	81.2%	86.4%	87.3%
Credit applications decline rate %	**25.4%**	22.5%	20.1%	22.4%	20.5%

	2009	2008	2007	2006	2005
Solvency and liquidity					
Financing cover (times)	**10.6**	17.6	72.8	59.2	14.8
Dividend cover	**1.79**	2.00	2.25	2.25	3.00
Gearing ratio (%)	**23.2%**	23.3%	15.6%	4.6%	6.1%
Current ratio (times)	**3.3**	3.1	3.4	3.9	3.9
Share performance					
Earnings per share (cents)	**642.8**	717.0	649.9	521.2	406.0
Headline earnings per share (cents)	**637.1**	689.8	645.4	524.6	400.9
Cash flow per share (cents)	**759.2**	620.9	642.5	609.7	625.2
Net book asset per share (cents)	**3 347.6**	3 057.6	2 774.3	2 425.0	2 059.6
Share price:					
Closing price	**42.69**	41.90	68.50	61.60	33.51
High	**52.00**	75.00	75.00	62.97	41.50
Low	**28.51**	43.00	43.00	32.75	28.20
Price-earnings ratio	**6.6**	5.8	10.5	11.8	8.3
Dividends per share for the financial year (cents)	**323**	323	266	225	135
Number of shares in issue (million)	**98.1**	99.2	100	100	100
Volume of shares traded (million)	**96.0**	110.5	120.8	156.1	61.8
Value of shares traded (million)	**3 679.7**	6 284.7	6 859.1	6 386.8	2 139.5
Market capitalisation (million)	**4 188**	4 156	6 850	6 160	3 351
Number of shareholders	**1 609**	1 501	1 776	2 331	2 862

Explanatory notes:

1. All ratios are based on figures at the end of the period unless otherwise disclosed.
2. For 2005 to 2009 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, charged in 2005 and 2006.
3. The return on equity for the 2005 financial year has been restated to exclude the effect of the restructuring prior to the listing.

Definitions

The definitions below should be read in conjunction with the accounting policies set out in the financial statements on pages 65 to 72.

Return on average shareholders' equity
Profit attributable to ordinary shareholders as a percentage of average shareholders' equity.

After-tax return on average capital employed
After-tax return for capital is the profit attributable to ordinary shareholders plus finance costs paid to providers of capital less the attributable tax on finance costs.

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

The after-tax return on average capital employed is the after-tax return for capital as a percentage of the average capital employed for the year.

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

Gross margin
Gross profit as a percentage of merchandise sales.

Operating margin
Operating profit as a percentage of revenue.

Inventory turn
Cost of merchandise sales divided by the closing inventory.

Slow-paying accounts (receivables)
These are customers who, to date, have paid between 70% and 65% of the amount due to Lewis over the whole period of the contract.

Non-performing accounts (receivables)
These are customers who, to date, have paid less than 65% of the amount due to Lewis over the whole period of the contract.

Financing cover
Profit before finance costs and taxation divided by the finance costs.

Gearing ratio
Interest-bearing debt, reduced by cash and cash equivalents, divided by shareholders' equity.

Current ratio
Current assets divided by current liabilities.

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

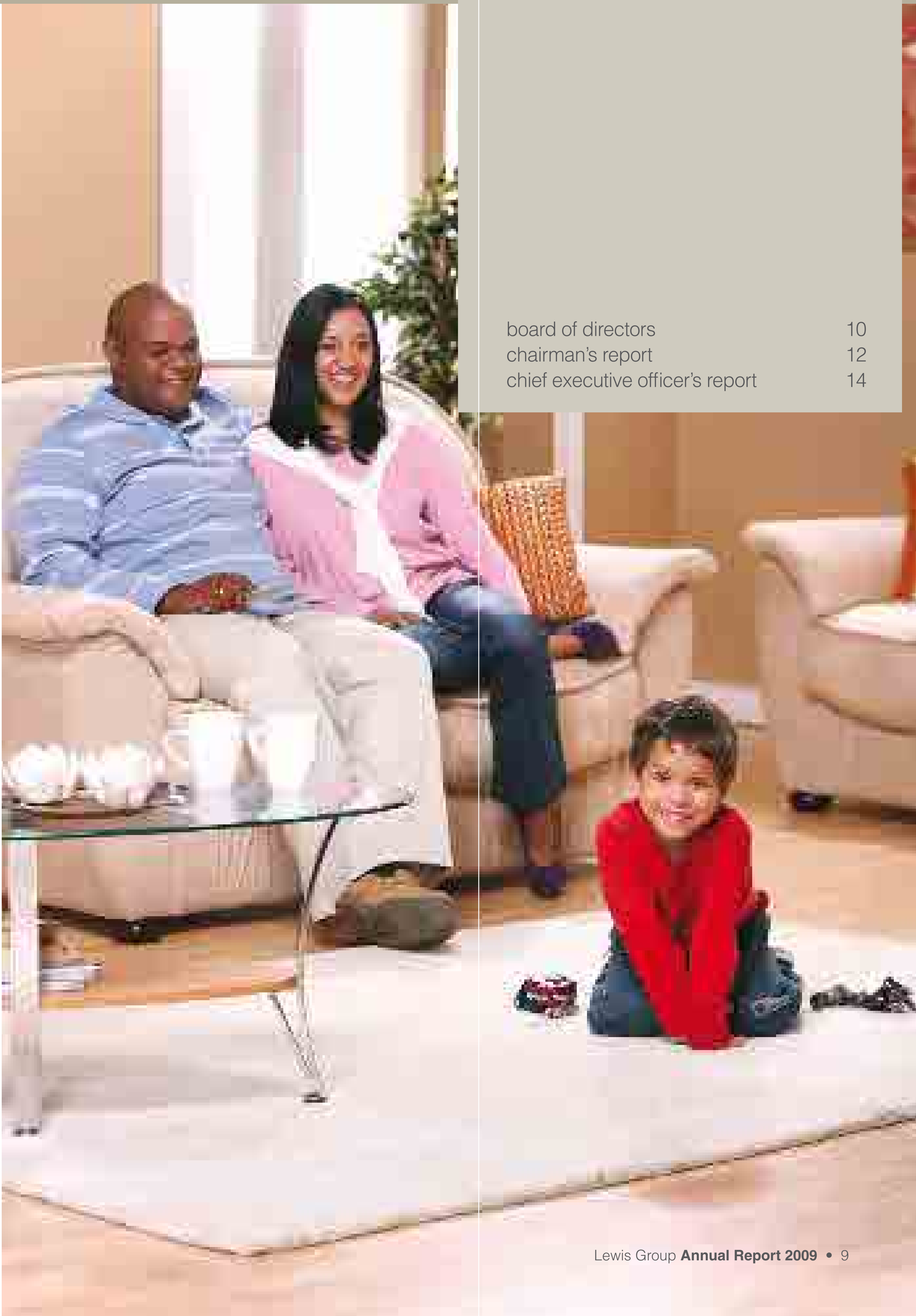
Headline earnings per share
Headline earnings divided by the weighted average number of shares in issue.

Cash flow per share
Cash generated from operations divided by the weighted average shares in issue.

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

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

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



board of directors

Standing (from left to right): Hilton Saven and Ben van der Ross
Seated (from left to right): David Nurek, Professor Fatima Abrahams, Alan Smart and Les Davies

Executive directors

Alan Smart (64)
Chief Executive Officer

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

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

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

Les Davies (53) – 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.

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

Non-executive directors

David Nurek (59) – Diploma in Law
Independent Non-executive Chairman of the board and Chairman of the Remuneration and Nomination Committee

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

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

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

Hilton Saven (56) – BCom, CA(SA)
Independent Non-executive Director and Chairman of the Audit and Risk Committee

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

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

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

Ben van der Ross (62) – 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 (46) – BEcon (Hons), MCom, DCom
Independent Non-executive Director and Chairperson of the Transformation Committee

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

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

chairman's report

David Nurek independent non-executive chairman

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

Food prices have remained stubbornly high while transport costs have not dropped in line with lower international oil prices. These factors continued to impact discretionary spending in our target market. Lewis customers have limited exposure to asset-based finance and have therefore not been as severely affected by the current interest rate environment as higher income earning consumers.

We have seen some positive signs emerge later in the year as inflation started to slow, interest rates declined and political stability has returned following the general election. However, consumers remain under pressure, while the threat of wide-scale job losses remains a major factor in the economy.

Financial performance

The group has remained focused and adopted strategies which have delivered sustainable performance. Revenue increased by 5.9% and the group has generated strong cash flows. The financial stress on consumers has, however, translated into an increase in debtor costs and this has contributed to headline earnings per share declining 7.6% for the year.

The group's balance sheet remains strong and gearing at 23% is consistent with last year.

Importantly, the group has maintained its dividend and shareholders will again receive a total payout of 323 cents per share for the year.

It is interesting to note that cash returned to shareholders in dividends and share buy-backs has been R1.6 billion since listing on the JSE in 2004. This is equivalent to 57% of the group's market capitalisation of R2.8 billion at the time of listing. The market capitalisation of the group was R4.2 billion at year-end.

Business model

Our business model is a competitive advantage and a key differentiator in a market where our peers have separated their furniture retail and financial services businesses and centralised credit collections.

The customer-centric model followed by Lewis is based on the premise that the selling of furniture and the provision of credit are entirely inter-dependent. Our store-based model ensures that long-term relationships are developed with customers and this, together with integrated credit and marketing strategies, results in a high level of repeat business.

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

We believe that this model is the most appropriate for our market and is integral to the sustainability of our consistent performance over many years.

Directorate and management

Alan Smart, the group chief executive officer, will be retiring in September 2009 and I am pleased to advise that he will be succeeded by Johan Enslin, the chief executive officer designate, from 1 October 2009. Johan will be appointed to the board as an executive director.

Alan has served Lewis with great distinction over the past four decades, including 18 years as chief executive. Under his leadership, Lewis has grown into the market-leading furniture retail group with 535 stores nationally and an enviable track record of financial and operational performance. Alan steered the group through its transition to a public company and the successful listing on the JSE.

We are extremely pleased that Alan has accepted our invitation to serve on the board in a non-executive capacity. He is regarded as a doyen in the furniture industry and we are delighted to retain his extensive knowledge of the business and the credit retail sector.

On behalf of the board and the people of Lewis, we wish Alan a healthy and fulfilling retirement, and look forward to his continued contribution to the business.

Prospects

Continued government and private sector infrastructure spend bodes well for ongoing job creation and retention in the Lewis target market.

However, rising retrenchments and unemployment remains one of the major risks facing the South African economy in the year ahead. The group's national store base and diverse customer profile should limit the impact of unemployment affecting a particular sector of the economy or geographic region.

Trading conditions are expected to remain difficult in the year ahead. However, the improving trend in revenue growth and the slowing bad debt provision in recent months provide some encouraging signs.

Appreciation

On behalf of the board I would like to thank every one of our 6 480 staff in the Lewis Group for their unwavering commitment during these uncertain times. Alan and his management team have continued to show decisive leadership and our staff at head office and at stores across the country have remained focused on meeting the needs of our customers. Thank you to my fellow directors for their active participation in the company and for sharing their business insights.

David Nurek
Independent Non-executive Chairman

chief executive officer's report

Alan Smart group chief executive officer

Over the past year Lewis has continued to focus on its core strategies to ensure sustained profitability while minimising risk in the current downturn. The continuing support from our loyal customer base of close to 700 000 middle income South Africans has enabled Lewis to produce a creditable performance for the year.

Trading performance

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

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

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

We have seen the benefit of customer loyalty in tough trading conditions and our store-based customer re-serve model resulted in a high level of repeat business. Store promotions were increased to achieve this objective, while marketing activity was increased to attract new customers.

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

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

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

Debtor management

Our credit risk management strategies have continued to be consistently applied through the group's centralised credit-granting process which use proprietary application and behavioural scorecards.

Increasing levels of consumer indebtedness can be seen in the growing decline rate of credit applications, which has risen from 22.5% in 2008 to 25.4% this year.

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

The doubtful debt provision for the period was 15.7% of net debtors (2008: 13.5%). This is calculated applying the net present value of the expected cash flows from slow-paying and non-performing accounts.

The movement in the doubtful debt provision was well contained in the second half of the year, increasing by R45 million relative to an increase of R92 million in the first six months. Further disclosure is contained in our credit report on page 26 and a detailed analysis of the debtors' payment experience appears on page 28.

The extended credit terms of 30 to 36 months offered to our top-rated customers on big ticket items offers increased affordability with regard to monthly instalments.

Store expansion

Our national store base has increased to 535 following the opening of 13 new stores.

Lewis successfully piloted a small store concept which has enabled the chain to gain access to high traffic areas at lower rentals. The stores average 200 m² to 250 m² and offer customers key merchandise lines, with the balance of the range available in the electronic catalogues and display screens in-store. This store format will form part of the Lewis expansion plans.

While the group will continue to focus on organic growth from existing stores, a cautious expansion programme will see 20 to 25 stores opened across the three trading brands.

chief executive officer's report *continued*

Outlook

Lewis has a youthful leadership team, but a team with many years' experience in the business. It is particularly pleasing that we have been able to appoint a new chief executive of Johan Enslin's calibre from within our ranks. I have worked closely with Johan over the past 10 years and believe he has the leadership skills, strategic insight, experience and energy to take the business to new heights.

The appointment of a new chief executive does not signal any change in strategy or direction in the business. Johan has been a key member of the Lewis executive team for several years and is committed to the business model and strategy.

Our priorities in the new year include a continued focus on sourcing innovative merchandise to grow furniture sales, as well as managing the debtors book through this tough credit cycle.

While trading will remain challenging it must be recognised that Lewis provides customers with access to basic household furniture which will always be in demand.

Lewis is well positioned to benefit from increased customer traffic as a result of store and brand consolidation among competitors and will look to gain market share in this environment of limited growth.

Appreciation

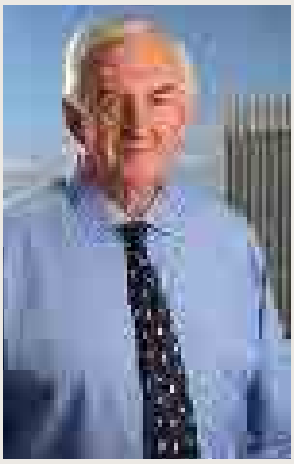
As I close off on my last report to shareholders ahead of my retirement in September this year, I would like to thank the many people who have influenced my career at Lewis over the past 40 years. My time at Lewis has been extremely fulfilling and rewarding. I look forward to a continuing relationship with the group as a non-executive director.

Thank you to my board colleagues, management and staff of Lewis past and present for making Lewis the great business that it is today. I have had the honour and privilege of working with many fine people and would also like to acknowledge our suppliers and manufacturers, business partners, the media, as well as the investment community for their support.

Alan Smart
Group Chief Executive Officer


Lewis
Cash Back Bonus

executive committee



Alan Smart (64)
Chief Executive Officer

Alan Smart is the chief executive officer and his biography is on page 11.

Johan Enslin (35)
Chief Executive Officer Designate and Chief Operating Officer

Johan was appointed chief operating officer of the group with effect 1 April 2007 and chief executive officer designate on 10 November 2008. 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.

Les Davies (53) CA(SA)
Chief Financial Officer

Les Davies is the chief financial officer and his biography is on page 11.

Chris Heiberg (61)
Group Marketing and Merchandise Director

Chris has been the merchandise and marketing director of Lewis Stores (Pty) Ltd since February 1984 and has retired with effect from 31 March 2009. His responsibilities included 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 (55)
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 (34) – 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.

Neil Jansen (37) – MBL (UNISA), Diploma in Labour Law
Human Resources Director

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

Neil is an HR practitioner with 15 years' experience. He spent 10 years with the Transnet Group from 1994 to 2003. During his tenure at Transnet he climbed the ranks from a trainee HR practitioner at Spoornet Port Elizabeth to a deputy executive manager at Protekon Cape, the engineering division of Transnet. Whilst at Protekon, he completed a Masters degree in Business Leadership at the UNISA School of Business Leadership in 2003.

In 2004 he joined the Naspers Group, initially as group HR manager for Via Africa and later served three years as general manager: human resources for media 24, the print media division of Naspers.

Derek Loudon (46)
Merchandise Director

Derek was appointed to the board of Lewis Stores (Pty) Ltd on 8 October 2008. He is now responsible for the group's merchandising functions.

His retail experience extends from 1981 when he began 10 years with the Pick n Pay Stores Limited group, where his career evolved from trainee floor manager to buyer. Derek gained production experience with Airflex Furniture Industries (Proprietary) Limited as procurement manager before joining Morkels Limited for eight years where he was the electrical merchandise executive from 1997 to 1999. During this time, Derek travelled extensively around the world sourcing products in North and South America, Europe, the Middle East and Asia.

Derek joined Lewis as the general manager: merchandise in May 2000.

chief financial officer's report

Les Davies chief financial officer

Against the background of a tightening economic environment the group's financial management priorities have continued to focus on debtor management, cost containment, effective working capital management and maintaining a robust balance sheet.

The chairman and chief executive officer have outlined the challenging environment and its impact on the group's trading performance in their respective reports.

Despite the tough market conditions, the board has shown its confidence in the long-term outlook for the group and maintained the total dividend for the year at 323 cents per share, comprising an interim dividend of 144 cents and a final dividend of 179 cents.

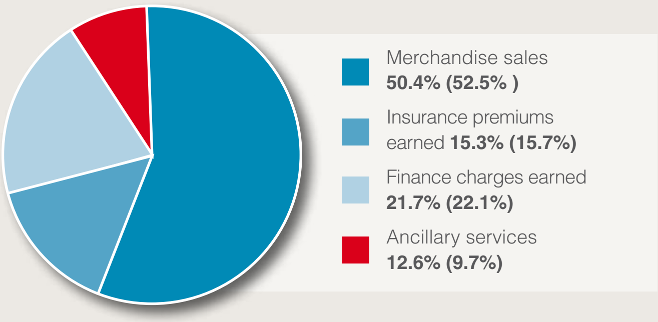
Financial performance

The review of the performance for the period should be read together with the annual financial statements on pages 58 to 107.

Income statement analysis

Revenue increased by 5.9% to R3 807.1 million (2008: R3 569.4 million). This includes merchandise sales, finance charges, ancillary services and insurance income.

revenue mix



Merchandise sales grew by 1.6% to R1 919.9 million (2008: R1 889.7 million). Price inflation averaged 5% for the year, considerably lower than had been anticipated at the outset of the year.

Gross margin, inclusive of foreign currency gains, was impacted by the strengthening of the Rand late in the reporting period and declined from 32.7% to 31.3%. When the impact of the currency movement is excluded, margins were relatively stable but remain under pressure owing to higher levels of promotional activity.

Finance charges earned were R31.7 million higher owing to increasing numbers of customers selecting longer-term payment options which have been provided to the group's top-rated customers.

Insurance revenue no longer reflects the earn-out of insurance premiums written in the buoyant trading period of 2007 and includes additional reserves required to cover the higher proportion of longer-term business.

Ancillary services rose by R131.6 million, benefiting from the monthly service and initiation fees on accounts opened post the introduction of the National Credit Act (NCA).

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

Operating expenses, excluding debtor costs, rose by 8.8% and as a percentage of revenue moved from 33.5% in 2008 to 34.4% this year. In terms of International Accounting Standard (IAS 18), initiation fees and directly related costs are recognised over the period of the contract on an effective yield basis. Following the implementation of the NCA the deferral of directly related costs for the first time last year has affected the cost comparison. Operating expenses on a like-for-like basis increased by 5.4% and improved from 34.8% of revenue in 2008 to 34.6% of revenue in 2009.

Investment income of R76.9 million comprises mainly interest and dividend income on listed investments held by Monarch.

Net finance costs increased by R29.7 million owing to higher average borrowings and interest rates during the year.

The taxation charge declined in line with the reduction in the corporate tax rate to 28%. While the secondary tax on companies (STC) was higher owing to the increased dividend payout, this impact was limited as a result of the lowering of the STC rate from 12.5% to 10% during the previous financial year. The effective tax rate is 31.7% (2008: 32.1%).

Attributable earnings were 11.7% lower at R567.0 million (2008: R642.3 million), impacted mainly by the increase in debtor costs.

The return on assets before tax was 22.9% (2008: 27.8%) and the return on equity 20.0% (2008: 24.4%).

Segmental performance

Retail

R million	**2009**	2008
Revenue	**2 213.6**	2 141.0
Cost of sales	**(1 318.3)**	(1 272.1)
Trading profit	**895.3**	868.9
Net operating costs	**(609.2)**	(561.6)
Operating profit	**286.1**	307.7
Operating margin	**12.9%**	14.4%

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

Revenue increased by 3.4% with merchandise sales up 1.6%. Net operating margin declined from 14.4% to 12.9% owing to lower sales growth and margin pressure.

chief financial officer's report *continued*

The performance is covered in detail in the Retail Brands report.

Financial services

R million	2009	2008
Revenue	1 012.1	891.1
Debtor costs	(338.8)	(190.4)
Other operating costs	(301.9)	(253.0)
Operating profit	371.4	447.7
Operating margin	36.7%	50.2%

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

Financial services revenue increased by 13.6% owing to the increasing number of longer-term contracts as well as service and initiation fees on post-NCA contracts.

The operating margin has been impacted by the higher level of debtor costs this year.

Risk services (Insurance)

R million	2009	2008
Revenue	581.4	564.3
Operating costs	(398.6)	(388.9)
Operating profit	182.8	175.4
Operating margin	31.4%	31.1%

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

Revenue increased by 3%. The operating margin improved from 31.1% to 31.4%.

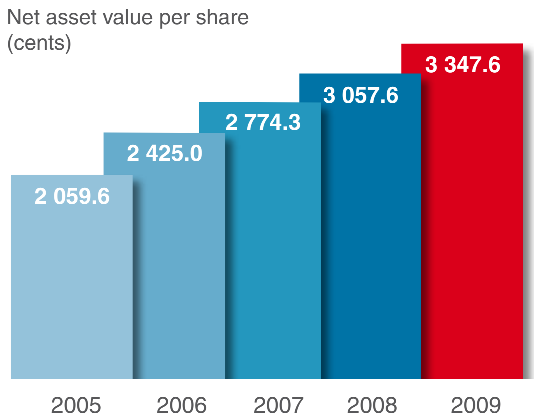
Balance sheet review

Insurance investments increased by R69.3 million as a consequence of additional funds being invested. The asset allocation has remained consistent throughout the year with approximately 75% held in cash and bond portfolios.

Inventory levels were consistent with the previous year. Stocks were well managed and the inventory turn improved from 5.5 to 5.8 times.

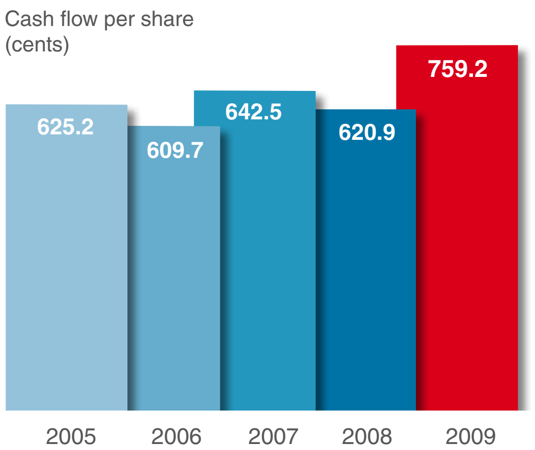
The increase in net debtors reflects the increasing number of contracts with extended credit terms. The provision for doubtful debt as a percentage of net debtors has risen from 13.5% to 15.7%, again highlighting the financial stress of consumers.

Net asset value per share has increased by 9.5% to R33.48.



Cash flow and capital management

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



Operating cash flows have funded the following during the year:

- increased working capital requirements of R386.9 million to fund the increase in trade and other receivables;
- share repurchases of R51.3 million; and
- dividends paid during the year of R284.3 million.

Gearing at 23% remains the same as last year. The board and management expect gearing for the 2010 financial year to be at a similar level.

Since the commencement of the share buy-back programme the group has repurchased 11.2% of the issued share capital. In the current credit and liquidity environment, no further repurchases are planned for the new financial year.

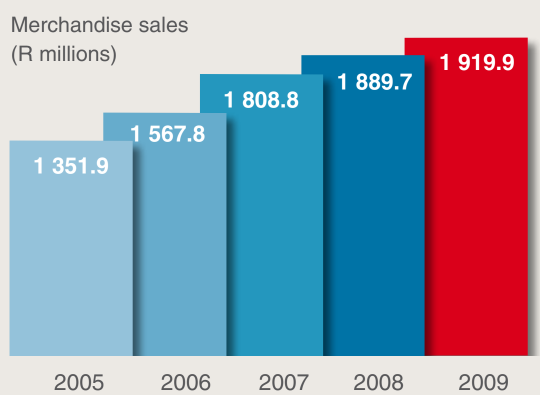
Cash returned to shareholders in dividends and share buy-backs has totalled R1.6 billion since the group's listing on the JSE in 2004, equivalent to 57% of the group's market capitalisation of R2.8 billion at the time of listing.

Les Davies
Chief Financial Officer

merchandising and marketing

Merchandise innovation remains a competitive advantage for Lewis and the group has continued to focus on driving sales through exclusive and differentiated product lines.

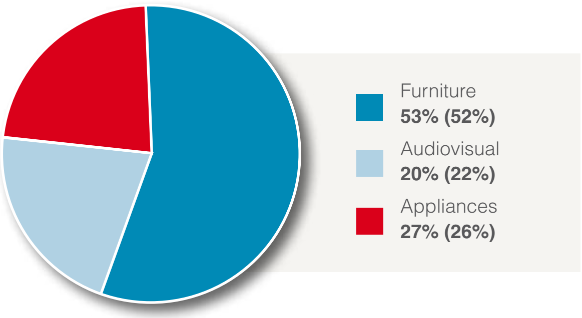
Merchandising



Lewis has created a distinctive merchandise range, with new designs, manufacturing techniques, fashion trends, alternate wood and other materials being sourced locally and internationally to offer customers attractive and exclusive merchandise at affordable prices.

A key merchandising objective is to grow the sales contribution from the higher margin furniture category. The success in sourcing imported and local product has resulted in furniture growing to 53% of sales (2008: 52%). The introduction of the electronic merchandise catalogue has also increased the number of furniture lines available to stores.

product range



Appliances (27% of sales) increased sales by 3.8% while the more discretionary sound and vision merchandise (20% of sales) slowed by 7%.

The group has ensured that margin is not sacrificed in pursuing top-line sales growth. After adjusting for foreign exchange movements the gross margin has remained relatively constant.

Product price inflation averaged 5% for the year, lower than was originally anticipated. Declining oil prices, recessionary pressures, cost of raw materials and the reintroduction of government export subsidies in certain markets have limited price increases.

Products are sourced from a diverse range of suppliers domestically and offshore. Over the past year direct imports accounted for 23.7% of the group's total purchases.

Merchandise is sourced from suppliers that can offer exclusivity and product differentiation. Products are also sourced from regional manufacturers which improves inventory levels in stores, reduces delivery lead times and lowers costs.

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

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

Marketing

Targeted marketing and advertising campaigns are used to communicate the promise of quality, exclusive merchandise and personalised service to current, settled and potential customers.

The innovative use of mainstream media advertising, together with non-traditional marketing strategies has ensured that Lewis has consistently high consumer awareness levels among furniture retailers.

Marketing strategies and tactics are tailored for the Lewis target market profile. Targeted brochure distribution is undertaken in core trading areas, eliminating areas which attract a low sales return. These brochures feature the depth of the merchandise range while leaflets are handed out in selected high traffic commuter areas to attract customers into stores with quality promotional lines.

Local promotions are an effective marketing tool for Lewis in retaining and regaining customers and these have been increased in response to the slow-down in consumer spending. These community-based events take place in-store where guests are exposed to the Lewis product offering.

The electronic merchandise catalogue introduced in 2008 is now displayed in all stores. As furniture retailers are seldom able to stock a complete merchandise range in stores, this catalogue enables customers to navigate their way through the full range on a large touch screen as well as view all colour and fabric options. The electronic catalogue is unique in the retail industry and is proving a powerful sales tool, as well as a training aid for sales staff.

The value of customer loyalty is increasingly important in challenging economic times. Through the Lewis Club customer loyalty programme 600 000 members receive the Club magazine every second month, with competitions, coupons and merchandise give-aways on offer to readers. Membership is free to customers taking out insurance when purchasing merchandise at Lewis.

The benefit of customer loyalty is also reflected in the high level of repeat sales to current and settled customers. A re-serve programme identifies customers for further credit extension based on their payment history and current level of indebtedness to the group. Marketing campaigns are then targeted at these customers.

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

Lewis has taken decisive action to manage credit risk through the deteriorating credit cycle. Application scorecards are regularly redeveloped to take account of the current credit environment while advanced behavioural risk models are used to manage changes in existing customer payment behaviour.

Credit risk management

Credit risk management policies have been consistently applied over the past year through the group's centralised credit-granting process. All credit applications are transmitted by the stores to head office where the credit application scorecards and credit policy rules are applied. The credit policies determine the credit limit, term and deposit required for each customer. The increase in the decline rate of credit applications from 22.5% in 2008 to 25.4% in 2009 reflects the increased indebtedness of consumers in the country.

Scorecard development software has been acquired and the credit team strengthened. This will enable the group to continue to refine and differentiate its market segments, allowing for new scorecards to be developed for niche segments of the population.

The group currently uses 13 risk scorecards, while 69 risk segments have been defined for the application of credit policies across the group.

Application risk scorecards are used to predict the risk of a potential new customer becoming delinquent in the future. This, together with the customer's credit bureau record, takes into account the applicant's payment record with other credit providers.

Behavioural scorecards are used to predict risk for repeat customers. In these scorecards, the majority of the predictive strength comes from the customers' payment behaviour with the Lewis Group. Internal payment behaviour tends to be more predictive than bureau

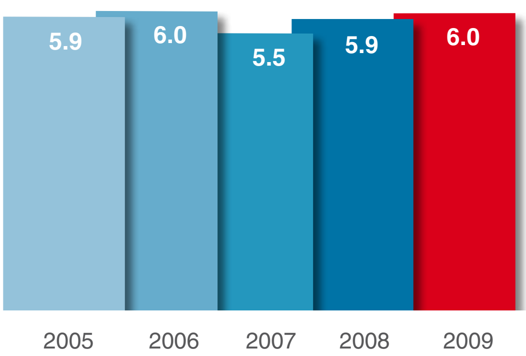
Credit ratios and statistics

		2009	2008
Credit sales as % of total sales	%	**64.3**	66.9
Net debtors book	Rm	**3 387.8**	2 938.7
Increase in net debtors book	%	**15.2**	16.2
Doubtful debt provision	Rm	**532.7**	395.8
Doubtful debt provision as % of net debtors book	%	**15.7**	13.5
Debtor costs	Rm	**338.8**	190.4
Debtor costs as a percentage of net debtors	%	**10.0**	6.5
Bad debts as a percentage of net debtors		**6.0**	5.9
Slow-paying and non-performing accounts as a % of net debtors book	%	**28.0**	24.9
Arrear instalments on slow-paying and non-performing accounts as a % of net debtors book	%	**20.9**	19.3
Arrear instalments on satisfactory paid accounts as a percentage of net debtors book	%	**9.5**	10.6
Doubtful debt provision coverage on non-performing accounts	%	**71.3**	69.6
Credit application decline rate	%	**25.4**	22.5

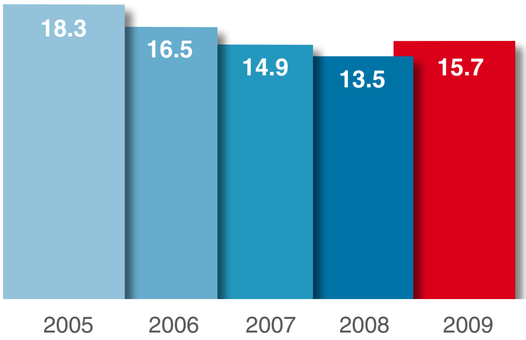
credit records as it is based on the customers' actual payment relationship with Lewis. Behavioural scorecards also factor in the payment behaviour of Lewis customers across the entire credit industry.

While risk models are applied to manage credit risk and maintain credit quality, these models are also used to create business opportunities and to increase the volume of re-servable customers. Targeted marketing is used to make variable offers to selected segments of the customer base.

Bad debts as a % of net debtors
(%)



Doubtful debt provision as a % of net debtors
(%)



Credit collection

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

This decentralised model is highly efficient as stores are located close to where the customers work, shop, commute and live, making it convenient for them to pay their monthly accounts at stores. Store collection staff also have a direct relationship with the customers who are generally from the same community and this improves the overall collection rate.

credit *continued*

In the current environment, the store-based collections model is proving its effectiveness as the monthly contact with customers provides an early indication of payment difficulties. The financial position of customers is more difficult to determine where a credit provider uses a centralised, call centre-based collections approach.

An additional benefit of the Lewis store-based model is that customers develop a relationship with sales staff when visiting the store to pay their monthly accounts and this creates re-serve sales opportunities in the future.

Customer ratings

Lewis operates a payment rating system which assesses customer payment behaviour over the lifetime of an account. Customers are assessed monthly based on their payment behaviour and allocated one of 13 payment ratings.

These payment categories have been summarised into four main groupings of customers and are reflected in the analysis of the debtors book:

Debtors payment analysis			Number of customers		Doubtful debt provision %	
			2009	2008	**2009**	2008
Satisfactory paid	Customers fully up to date including those who have paid 70% or more of amounts due over the contract period	No	**497 296**	534 286		
		%	**72.0**	75.1	**0**	0
Slow payers	Customers who have paid between 70% and 65% of amounts due over the contract period	No	**57 042**	51 759		
		%	**8.2**	7.3	**20**	17
Non-performing customers	Customers who have paid between 65% and 55% of amounts due over the contract period	No	**50 300**	47 130		
		%	**7.3**	6.6	**42**	42
Non-performing customers	Customers who have paid 55% or less of amounts due over the contract period	No	**86 448**	78 413		
		%	**12.5**	11.0	**88**	86
			691 086	711 588	**15.7**	13.3

As a result of the tough economic environment, there has been an increase of customers in the slow-paying and non-performing categories.

Debtors analysis post the National Credit Act

The introduction of the National Credit Act (NCA) in 2007 enabled the business to extend credit terms for top-rated customers. The condition of these extended term accounts is better than that of shorter-term accounts. A detailed analysis of both extended term accounts and shorter-term business since the implementation of NCA appears below:

			Number of customers NCA 24 months	NCA over 24 months
Satisfactory paid	Customers fully up to date including those who have paid 70% or more of amounts due over the contract period	No %	**269 491** **81.5**	**175 940** **83.7**
Slow payers	Customers who have paid between 70% and 65% of amounts due over the contract period	No %	**20 732** **6.3**	**10 895** **5.2**
Non-performing loans	Customers who have paid between 65% and 55% of amounts due over the contract period	No %	**15 998** **4.8**	**9 496** **4.5**
Non-performing loans	Customers who have paid 55% or less of amounts due over the contract period	No %	**24 462** **7.4**	**13 883** **6.6**
			330 683	**210 214**

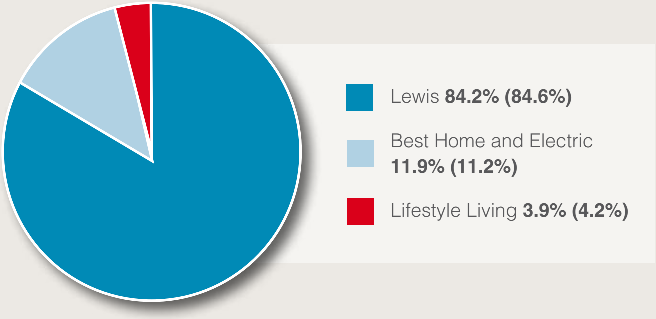
The "satisfactory paid" percentage for the longer-term business is 83.7% compared to 81.5% for the business of 24 months or less. Extending terms to our top-rated customers has had no impact on the condition of the debtors book and afforded the group additional revenue opportunities.

retail brands

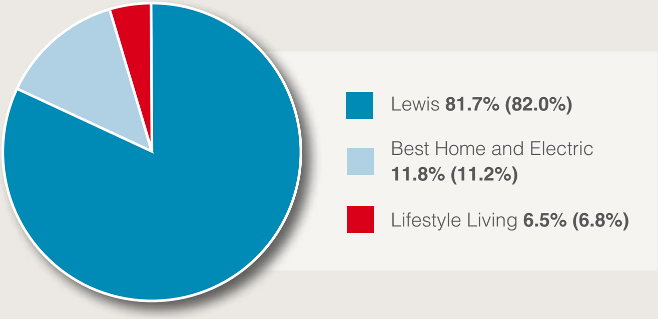
Lewis is South Africa's single largest furniture brand and contributes 82% of the group's merchandise sales. Best Home and Electric has increased its share of group sales to 12% through an active store expansion programme in recent years.

Lifestyle Living, which was acquired by the group in 2003 to focus on higher income customers, accounts for 6% of merchandise sales. The retail chains are supported by Monarch Insurance, the group's short-term insurer.

revenue



merchandise sales



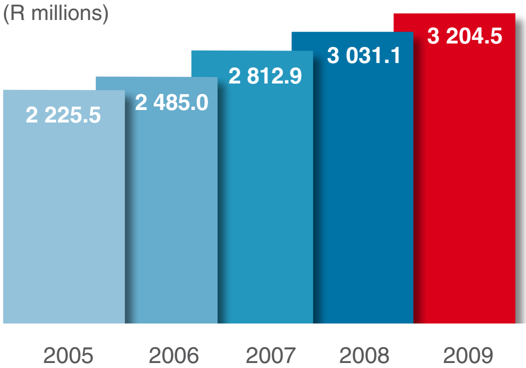
Market positioning

Lewis sells a range of household furniture, electrical appliances and home electronics to customers in the LSM 4 to 7 categories. Each store carries a basic range of merchandise and stores then select a further optional range to cater for specific markets and regional differences. Lewis outlets are generally situated in main streets and town centres, with some presence in shopping centres. Lewis has 427 stores, including 47 stores in the neighbouring countries of Botswana, Lesotho, Namibia and Swaziland.

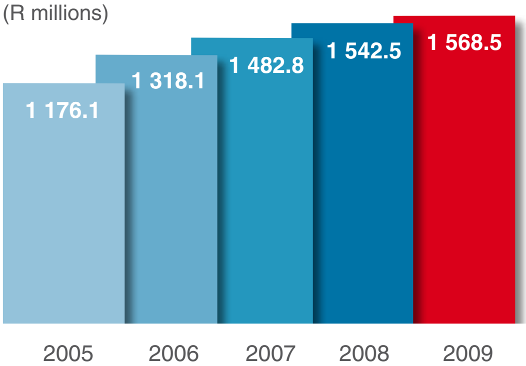
Developments in 2009

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

Revenue – Lewis
(R millions)



Merchandise sales – Lewis
(R millions)



Performance

		2009	2008
Total revenue, including risk and financial services revenue	Rm	**3 204.5**	3 031.1
Total revenue growth	%	**5.7**	7.8
Merchandise sales	Rm	**1 568.5**	1 542.5
Merchandise sales growth	%	**1.7**	4.1
Comparable store merchandise sales growth	%	**(0.4)**	1.8
New stores opened during year		**10**	11
Number of stores		**427**	417
Total trading space	m^2	**201 458**	198 282
Annual revenue per m^2	R'000	**15.9**	15.3
Credit sales	%	**67.9**	70.8

retail brands *continued*

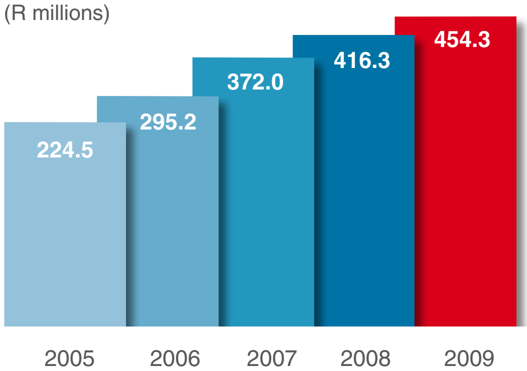
Market positioning

Best Home and Electric is a retailer of electrical appliances, sound and vision equipment and furniture, targeting a similar customer profile to Lewis in the rapidly growing LSM 4 to 7 groups. The chain offers exclusive branded merchandise which is differentiated from Lewis to create a distinctive electrical goods brand. Stores are smaller than Lewis stores and are generally situated in high traffic areas with high trading densities.

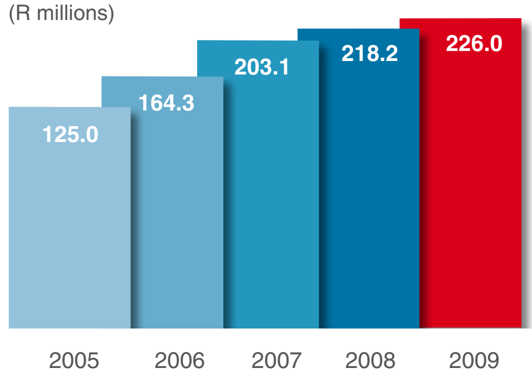
Developments in 2009

In response to growing customer needs, a limited range of furniture lines were introduced into stores and the chain rebranded as Best Home and Electric to reflect this change in merchandise offering. This move supports the group's merchandise strategy of increasing furniture sales.

Revenue – Best Home and Electric (R millions)



Merchandise sales – Best Home and Electric (R millions)



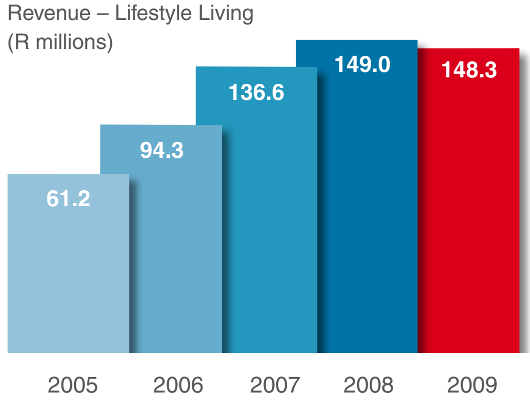
Performance

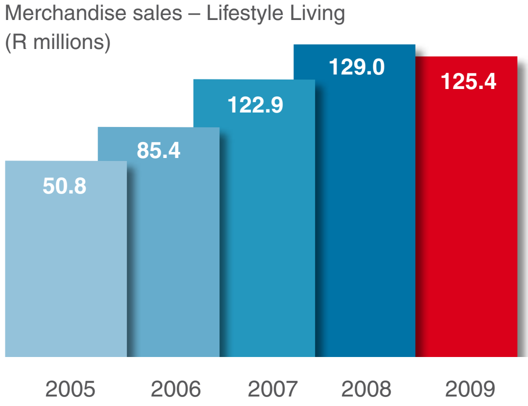
		2009	2008
Total revenue, including risk and financial services revenue	Rm	**454.3**	416.3
Total revenue growth	%	**9.1**	11.9
Merchandise sales	Rm	**226.0**	218.2
Merchandise sales growth	%	**3.6**	7.5
Comparable store merchandise sales growth	%	**1.7**	(1.1)
New stores opened during year		**3**	8
Number of stores		**88**	87
Total trading space	m^2	**12 829**	12 686
Annual revenue per m^2	R'000	**35.4**	32.8
Credit sales	%	**60.3**	63.4

Lifestyle Living

Market positioning

Lifestyle Living is a niche retailer of stylish and contemporary furniture to consumers in the LSM 8 to 10 market. Stores are located mainly in shopping centres.





Performance

		2009	2008
Total revenue, including risk and financial services revenue	Rm	**148.3**	149.0
Total revenue growth	%	**(0.5)**	9.1
Merchandise sales	Rm	**125.4**	129.0
Merchandise sales growth	%	**(2.8)**	5.0
Comparable store merchandise sales growth	%	**(6.5)**	(9.4)
New stores opened during year		**–**	3
Number of stores		**20**	21
Total trading space	m^2	**8 815**	9 268
Annual revenue per m^2	R'000	**16.8**	16.1
Credit sales	%	**27.4**	26.6

retail brands *continued*

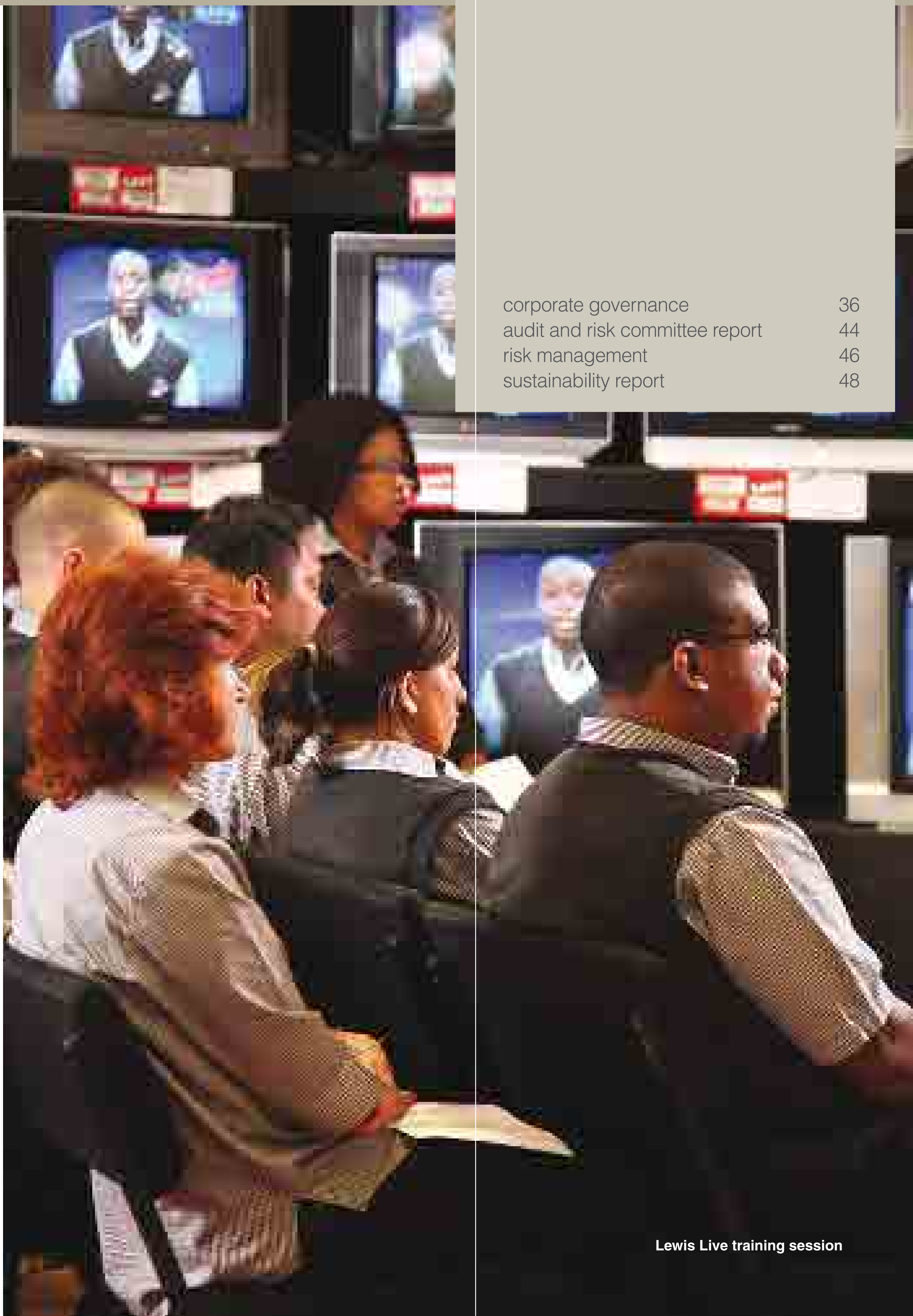
Monarch offers a range of short-term insurance products to the group's customers purchasing goods on credit.

The basic insurance package provides cover for the settlement of customers' outstanding debt in the event of death or permanent disability. Other insurance products cover the replacement of goods as a result of any form of accidental loss, such as fire, theft or natural disaster. A retrenchment cover benefit is also available. Similar products are offered to the group's customers in neighbouring states through contracted third-party insurance partners.

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

Monarch is registered with the Financial Services Board and operates under a restricted short-term insurance licence. The Short-Term Insurance Act requires the company to hold assets to meet future financial obligations and total insurance assets were R734.2 million at year-end.

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



Lewis Live training session

corporate governance

Introduction

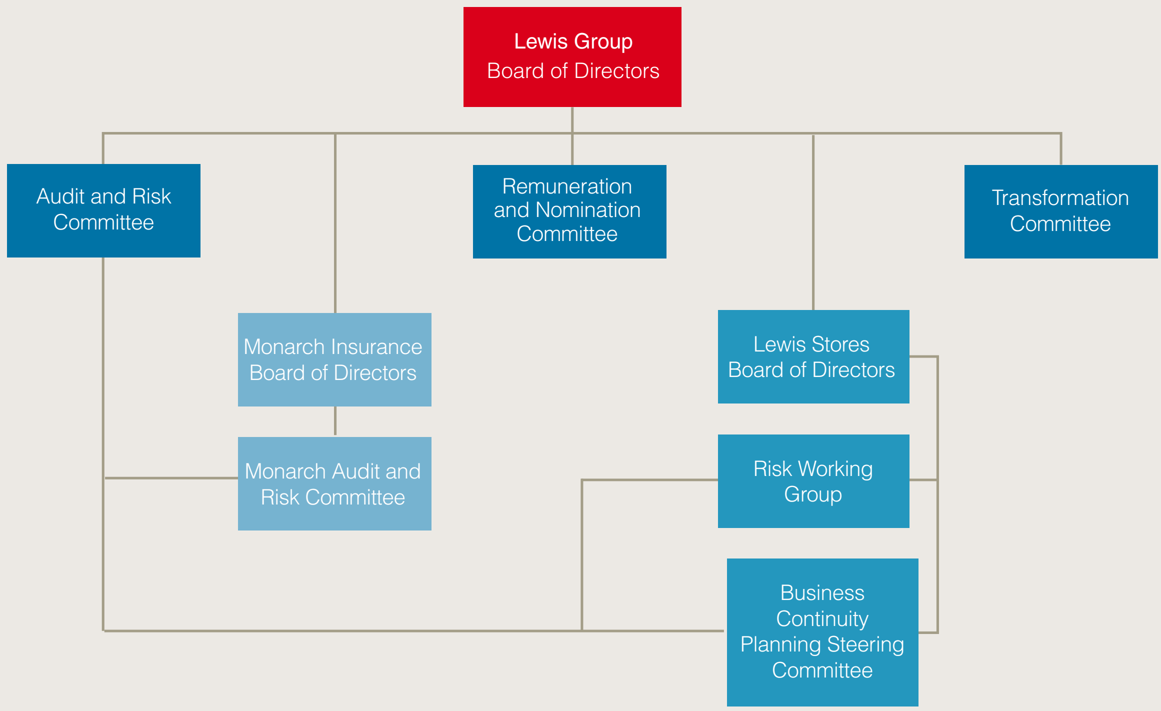
Lewis Group strives to ensure that high standards of corporate governance are consistently practised. The group therefore embraces the principles of integrity, transparency and accountability in its dealings with stakeholders.

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

Governance structure

Board and committee structure



Board of directors

Board responsibilities

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

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

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

Board composition

The board consists of four independent non-executive directors and two executive directors. Background information on the directors appears on page 11 of this report.

Alan Smart, the chief executive officer, retires in September 2009 and will be succeeded by Johan Enslin who will be appointed as an executive director with effect from 1 October 2009. Alan Smart will continue to serve on the board as a non-executive director.

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

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

Board meetings

The board meets four times a year and additional meetings may be convened. Meetings are conducted in accordance with formal agendas, ensuring that all substantive matters are addressed and monitored. Any directors may request additional items to be included on the agenda.

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

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

Company secretary

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

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

corporate governance *continued*

Board committees

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

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

Lewis Group Remuneration and Nomination Committee	
Purpose and function	Composition
• Developing a remuneration philosophy. • Ensuring senior executives are fairly rewarded. • Reviewing and approving compensation of executive directors, non-executive directors and senior executives. • Approving the award of share incentives. • Succession planning. • Ensuring the board has the required mix of skills, experience and other qualities to effectively manage the group. • Identifying and nominating candidates to fill board vacancies. Before nominating candidates, reference checks are performed.	The committee consists of four independent non-executive directors. The chief executive officer attends meetings at the invitation of the committee, except when matters relating to his own remuneration are under discussion. Meetings Twice per year

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

corporate governance *continued*

Monarch Insurance Company Limited ("Monarch")

Monarch Insurance Company Limited is the group's short-term insurer. Knowledge and experience of short-term insurance is considered in appointing directors to the board. Two of the non-executive directors, R L Shaw and R I Sanger, provide insurance advisory services to Monarch.

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

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

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

Lewis Stores

Lewis Stores (Pty) Ltd is the main trading subsidiary of the group. The company sells a selected range of furniture, appliances and home electronics on credit through 380 Lewis, 86 Best Home and Electric and 20 Lifestyle Living stores.

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

Governance committees of Lewis Stores

- Risk Working Group (RWG) conducts a risk self-assessment on a biannual basis to evaluate any change in business risks and identify emerging risks which may require mitigation. Following each assessment an appropriate course of action is agreed to mitigate or manage the risks identified. Responsibility for each risk is assigned by the RWG to the appropriate executive or line manager.
- Business Continuity Planning Steering Committee manages the business continuity plan (BCP) which assesses potential environmental disasters, disruptions, loss of utilities and services, equipment or system failure, serious information security incidents and other emergency situations. The BCP covers all the key business processes identified as critical to the functioning of the group. The plan is tested periodically in a simulated environment.
- Executive Committee consists of fourteen members, including the eight directors of Lewis Stores.

corporate governance *continued*

Board and committee attendance

Lewis Group Limited

Non-executive directors	Board	Audit and risk	Remuneration and nomination	Transformation
Number of meetings	4	4	2	2
D M Nurek+	4	4	2	2
H Saven	4	4	2	n/a
B J van der Ross	3	3	2	n/a
F Abrahams	3	n/a	2	2
Executive directors				
A J Smart	4	4•	2•	2•
L A Davies	4	4•	n/a	n/a
Management				
J Enslin	4•	4•	n/a	2
J Horn#	n/a	n/a	n/a	–
N Jansen*	n/a	n/a	n/a	1
D Loudon	n/a	n/a	n/a	2
S Röhm	n/a	n/a	n/a	2

\+ Chairman

* Appointed 4 March 2009

\# Resigned 31 May 2008

• By invitation

Monarch Insurance Company Limited

Non-executive directors	Board	Audit and risk
Number of meetings	4	4
D M Nurek	4	4
R L Shaw	4	4
R I Sanger	4	4
H Saven*	2	2
Executive directors		
A J Smart+	4	4•
L A Davies**	4	4•

\+ Chairman

* Previously an alternate director, appointed full director on 3 November 2008

** Appointed chief executive officer of Monarch Insurance on 10 November 2008

• By invitation

Lewis Stores (Pty) Ltd

Directors	Board
Number of meetings	4
A J Smart	4
L A Davies	4
J Enslin	4
B van Aswegen	3
C Irwin	4
N Jansen*	3
D Loudon**	2

* Appointed 1 September 2008

** Appointed 8 October 2008

Compliance and codes of conduct

Regulatory and legislative compliance

New and proposed legislation impacting the group includes the following:

- Insurance Laws Amendment Act: This legislation mainly affects the group's insurer, Monarch Insurance Company Limited. The group is currently implementing the Act.
- Consumer Protection Act: An analysis of the legislation has been concluded and owing to the high ethical standards adopted by the group in its dealings with customers, it is anticipated that limited refinements will be required. The Act contains a number of transitional provisions which allows for businesses to effect implementation by October 2010.
- Companies Act: Developments continue to be monitored to determine the impact on the group. The effective date of the legislation is expected to be mid-2010 to allow the Department of Trade and Industry to create the necessary infrastructure and enable companies to implement the necessary changes.

Legal compliance software was implemented during the year to monitor applicable laws, codes, regulations and articles impacting on the group.

Behavioural code

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

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

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

Personal share dealings

In terms of the group's insider trading policy, directors and specifically identified staff are restricted from dealing in the shares of Lewis Group during closed periods.

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

It is also mandatory to notify the company secretary of any dealings in the company's shares. This information is then disclosed to the JSE Limited and published on SENS.

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

Stakeholder communication

The group is committed to presenting a balanced and understandable assessment of the financial position to all stakeholders. Management has an active contact programme with institutional investors and investment analysts, with activities including interim and final results presentations in Cape Town and Johannesburg, post-results roadshows to investors, regular meetings with local and international fund managers and analysts, as well as participation in broker conferences locally and offshore.

audit and risk committee report

The Audit and Risk Committee (the committee) has pleasure in submitting its report as required by sections 269A and 270A of the Companies Act for the year ended 31 March 2009 (the 2009 financial year):

Objectives of the Audit and Risk Committee

The objectives of the committee are as follows:

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

The committee's charter is reviewed and approved on an annual basis.

Membership

The committee comprises the following independent non-executive directors:

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

Biographical details of the committee members are provided on page 11. Fees paid to the committee members are outlined in the table of directors' remuneration on page 85 of the annual financial statements.

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

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

Committee activities

The committee met four times during the year under review. Attendance at the committee meetings was as follows:

Member	Number of meetings attended
H Saven	4
D M Nurek	4
B J van der Ross	3

The committee attended to the following material matters:

- Financial statements
  - reviewed the interim results and year-end financial statements, including the public announcements of the company's financial results, and made recommendations to the board for their approval. In the course of its review, the committee:
    - took appropriate steps to ensure that the financial statements were prepared in accordance with International Financial Reporting Standards (IFRS);
    - considered the appropriateness of accounting policies and disclosures made; and
    - completed the standard review of the going concern assumption.
- External auditors
  - reviewed the independence of Pricewaterhouse-Coopers Inc., the company's external auditors, and the nominee for the appointment of the designated auditor before recommending to the board that their re-election be proposed to shareholders;
  - approved, in consultation with management, the audit fee and engagement terms for the external auditors for the 2009 financial year. The fees paid to the auditors are disclosed in note 20 to the annual financial statements;
  - determined the nature and extent of allowable non-audit services and approved the contract terms for the provision of non-audit services;
  - reviewed and approved the external audit plan, ensuring that material risk areas were included and that coverage of the significant business processes was acceptable; and
  - reviewed the external audit reports and management's response, considered their effect on the financial statements and internal financial control.

- Internal audit
  – reviewed and approved the existing Internal Audit charter which ensures that the group's internal audit function is independent and has the necessary resources, standing and authority within the organisation to enable it to discharge its duties;
  – reviewed and approved the annual internal audit plan, ensuring that material risk areas were included and that the coverage of significant business processes was acceptable;
  – reviewed the quarterly internal audit reports, covering the effectiveness of internal control, material fraud incidents and material non-compliance with group policies and procedures;
  – oversaw the co-operation between internal audit and external auditors; and
  – performed the annual evaluation of internal audit.
- Risk management
  – reviewed and approved the existing charter of the Risk Working Group;
  – reviewed the biannual reports prepared by the Risk Working Group and considered whether the current risk environment was appropriate for the business and whether management needed to mitigate or transfer any further portion of the business risks; and
  – evaluated the effectiveness of the risk management process.
- Financial control and compliance
  – reviewed and approved the group's existing treasury policy and reviewed the quarterly treasury reports prepared by management;
  – reviewed the quarterly legal and regulatory reports setting out the latest legislative and regulatory developments impacting the group; and
  – considers and, where appropriate, makes recommendations on internal financial control.

Expertise and experience of the chief financial officer

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

Approval of the report

The committee confirms it has functioned in accordance with its terms of reference for the 2009 financial year and that its report to shareholders has been approved by the board.

Hilton Saven
Chairman

Audit and Risk Committee
18 May 2009

risk management

Risk management review

Risk management is an integral component of the group's governance framework which enables the group to manage business and industry threats and capitalise on potential opportunities.

The risk management principles outlined in King II are embedded into key processes to ensure the business remains sustainable and continues to create wealth for shareholders.

The board retains accountability for risk management and responsibility is delegated to the Audit and Risk Committee to ensure the group has adequate risk and internal controls (refer to Diagram 1).

Risk management process

The group's risk management and internal audit functions are integrated. Risk management is the responsibility of operational management, with internal audit acting as a facilitator in quantifying, measuring and reporting on the status of business risks to the Risk Working Group.

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

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

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

Changes in risk profile

There were no significant changes in the overall risk profile of the group during the year. While the potential impact of HIV/AIDS on the group's customer base and staff cannot be underestimated, the current assessment of the risk is considered to be low, based on the death claims experience of the group's insurer. The major risks are detailed in the accompanying table (refer to table 1).

Diagram 1: Risk management process

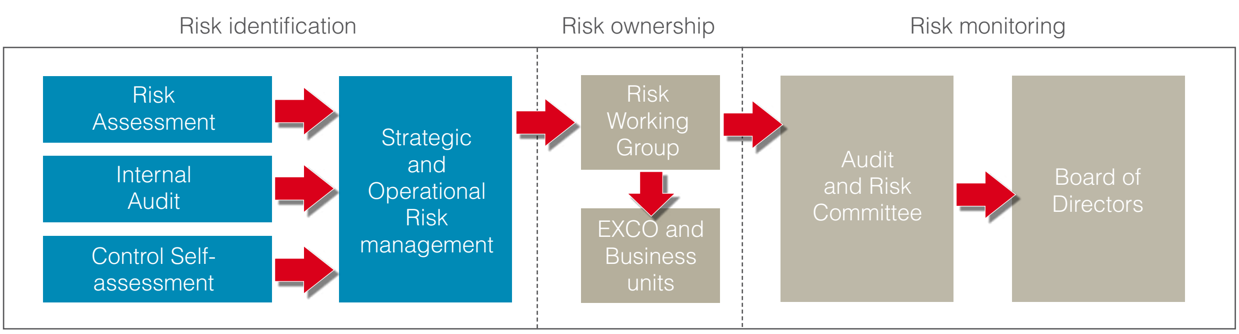


Table 1: Major risks facing the group

Risk	Significance	Definition	Management action
Credit management		The risk of not being able to maintain the optimal credit quality of the debtors book and manageable levels of bad debt.	• Centralised credit-granting process • Technology-based credit-scoring systems • Credit scorecards regularly reviewed to maintain credit risk levels • Store-based collections process provides early warning of payment difficulties • Continuous assessment of quality of credit granted and collection performance
Market/ currency exposure		The impact of foreign exchange movements, interest rate hikes and fluctuations in the equity market on the group's profits.	• Forward-cover contracts to mitigate exchange rate fluctuations • Treasury policy • Monthly management meetings with Monarch's investment advisers and quarterly review by the Monarch board

Risk	Significance	Definition	Management action
Information technology	●	The risk of being dependent on the information technology platforms to support the operations of the company.	• Software development and services outsourced • Service level agreements with service providers • Alternatives identified for sourcing of technical support • Continual review of existing systems and service arrangements by IT Steering Committee • Disaster Recovery Plan tested regularly
Supply base	●	The risk of not being able to satisfy customer demand as a result of the group's procurement strategies and supply chain management.	• Continuous identification of vendors to maintain exclusive, differentiated merchandise • Appropriate diversification of supply • Balance between imported and local supply • Monitoring performance of logistics providers
Human capital	●	The risk of not managing the group's human resources in such a way that it supports the objectives of the business.	• Retention of key executives • Fast Track management programme • Training and development • Succession planning • Salary surveys • Share incentive schemes • Collective bargaining with unions
Regulatory	●	The impact of regulations and legislation on the operations of the group.	• Monitoring legal publications • Implementation of a legal compliance system • Membership of industry associations provide contact with regulators • Services of advisers are retained for key areas of the business
Crime	●	The risk of financial loss or loss of human life as a result of crime, employee dishonesty or fraud.	• Strong focus on internal control environment • Internal audit coverage • Reinforcement of the "Lewis behavioural code" • Toll-free confidential hotline • Security guards at high-risk branches • Drop safes and cash-in-transit procedures • Alarm systems and physical security
Reputation	●	The risk of damaging the group's brand name which could impair its ability to retain and generate business and/or impact on the share price.	• Regular briefings and interaction with analysts and shareholders • Financial statement compliance review • Regular compliance reviews • Customer Service Excellence campaign • Staff training and awareness • Customer care line • Corporate social investment
Business Continuity Planning (BCP)	●	The potential impact on the group's profitability as a result of its inability to sustain operations in the event of the head office being incapacitated.	• BCP reviewed on an annual basis • Regular BCP Steering Committee meetings • BCP tested every year

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

sustainability report

Thembalitsha Foundation – Graceland Pre-School

Lewis Group recognises the need to enhance sustainability management practices to ensure the longer-term prosperity of the business and the communities it serves, while at the same time meeting the shorter-term needs of providing superior returns to shareholders.

Introduction

Over the past year the group has continued to transform the employee profile, invest in staff training and development, support community upliftment through corporate social investment and assist small businesses through procurement and enterprise development practices.

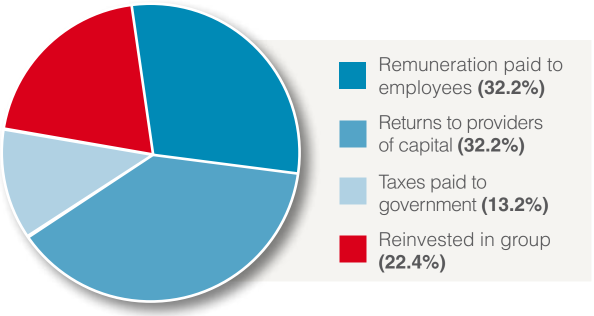
Monte Christo Feeding Centre – Upgrade of kitchen

Value added statement

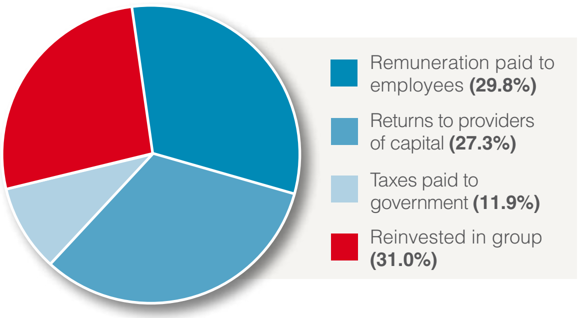
	Group			
	2009		2008	
	Rm	**%**	Rm	%
Revenue	**3 807.1**		3 596.4	
Paid to suppliers for goods and services	**2 133.2**		1 902.7	
Value added by operating activities	**1 673.9**		1 693.7	
Distributed as follows:				
Remuneration to employees	**538.4**	**32.2%**	504.2	29.8%
Returns to providers of capital	**539.6**	**32.2%**	463.1	27.3%
To provide lenders with a return on their capital utilised	**108.5**		68.2	
To provide lessors with a return for the use of their premises	**146.8**		132.2	
To provide shareholders with a return on their equity	**284.3**		262.7	
Taxes paid to governments	**221.4**	**13.2%**	202.1	11.9%
Income taxation	**217.7**		199.2	
Municipal rates	**3.7**		2.9	
Reinvested in the group	**374.5**	**22.4%**	524.3	31.0%
Depreciation and amortisation	**45.8**		40.9	
Deferred taxation	**46.0**		103.8	
Net earnings retained	**282.7**		379.6	
Total wealth distributed	**1 673.9**	**100.0%**	1 693.7	100.0%

Distribution of value added

2009



2008



sustainability report *continued*

Employees

Lewis acknowledges that employees are the drivers of business performance. The group's human resources strategy is aimed at enhancing business performance through staff recognition schemes, training and development, sound employee relations and an employee well-being programme.

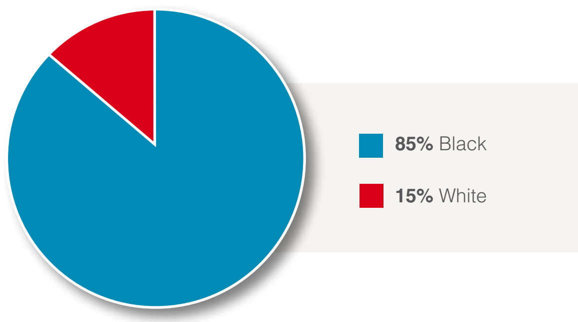
A results-driven culture pervades the business and individuals are managed according to targets which are directly linked to the group's goals and objectives.

Employment equity

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

The table indicating the percentage of the permanent workforce that is from previously disadvantaged groups is provided below:

Employees by race



	October 2008	October 2007	October 2006	October 2005	October 2004
Senior management	14.3%	17.9%	17.2%	6.3%	6.1%
Specialists and middle management	27.8%	28.0%	19.7%	35.0%	29.1%
Skilled technical and junior management	54.3%	47.7%	42.8%	42.9%	41.4%
Semi and unskilled employees	88.7%	87.9%	83.9%	82.3%	81.7%
Total	83.4%	81.4%	77.1%	75.7%	74.9%

Staff benefits

Lewis aims to create an environment where loyal staff are rewarded for their contribution to the success of the group. This is reflected in the remuneration structures and benefits offered to staff. These include:

- compulsory membership of the Lewis Provident Fund or the SACCAWU National Provident Fund;
- voluntary medical aid, subsidised by the company;
- home loan assistance;
- educational bursaries;
- subsidised canteen facilities at head office;
- counselling facilities;
- discounts on merchandise; and
- low-cost funeral and personal accident insurance.

Industrial relations

A recognition agreement exists with the South African Commercial and Allied Workers' Union (SACCAWU) and other trade unions.

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

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

Training

An extensive range of training courses are offered to all employees to enhance their performance and skills. During the 2009 financial year, 2 148 staff attended training courses, with 80% of the delegates being previously disadvantaged staff. A specific focus has been on the training of branch managers and assistant managers.

Courses per job category	No. of delegates
Regional Controllers/ Branch managers/ Assistant managers	934
Sales advisers	494
Credit clerks/collectors	398
Stock clerks	150
Other	172

The group's training department is accredited as a training provider with the Wholesale and Retail Sector Education and Training Authority (W&R SETA) and offers a range of computer-based training in areas such as management development, sales training, induction training and other job-specific skills training. A further 2 568 staff were trained through these computer-based courses.

Lewis Live, a weekly training programme broadcast on the in-house television system, enables the group to expose all branches to standardised skills training and the latest product information. The programme features two products per week and all sales people are tested on their knowledge of these products.

Human resources priorities for 2010

- Further enhance retention of high performing and critical staff
- Increase the effectiveness of the talent management process
- Leadership development
- Build the Lewis brand as an employer of choice in the furniture retail and financial services sectors.

HIV/AIDS

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

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

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

Transformation

Procurement and enterprise development

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

A substantial volume of merchandise is procured from small businesses which are mainly owned by persons from designated groups. Payment terms are 30 days which supports the cash flows of these suppliers.

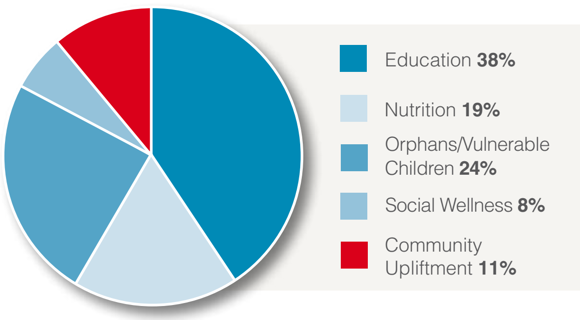
During the year approximately 40% of furniture was bought from BEE suppliers, 90% of vehicles were bought from a BEE dealership and some 30% of rental premises are owned or controlled by previously disadvantaged individuals.

Corporate social investment

Lewis is committed to uplifting the communities in which it operates and seeks to be recognised by these communities as a dependable, caring and ethical corporate citizen. This is projected in the group's corporate social investment (CSI) programme which supports communities close to its business operations and close to where staff live.

The CSI strategy is to identify projects which are sustainable, show measurable results and offer the greatest social impact and value for the company. The primary focus areas are education and training, followed by health and social development.

CSI



The main projects supported by Lewis over the past year were:

- *Project Build* provides educational and community facilities for disadvantaged communities in rural KwaZulu-Natal. The project brings together communities, funders, sponsors and local builders to develop these facilities while creating employment and providing classrooms for children. In partnership with Project Build, Lewis has built five classrooms for schools in rural areas of Stanger and Tongaat.
- *Monte Christo* is a feeding kitchen in Paarl. Lewis has funded equipment to enable the facility to provide daily meals for over 3 600 children in accordance with guidelines from the Peninsula School Feeding Association.
- *Children of the Dawn* supports rural community initiatives which focus on caring for HIV/AIDS orphans and other vulnerable children. Lewis has increased its sponsorship from 45 to 83 children and the funding covers schooling, food, clothing and health care, including HIV/AIDS treatment.
- *SA Children's Home* in Gardens, Cape Town, provides a home for boys and girls who have generally been placed in the home via the social services. Lewis supports the home with furniture and funds schooling needs of the children.
- *Family Reunion Centre* is based in Paarl and also has a facility in Krugersdorp in Gauteng. This care centre provides impoverished pensioners in the Boland with food parcels, as well as caring for homeless people and single mothers and operating a soup kitchen for schoolchildren.

Other projects supported by Lewis are the Peninsula School Feeding Association in the Western Cape, the Amy Biehl Foundation and the Community Chest.

Two classrooms built for Kwelifuphi Primary School, Upper Tongaat

sustainability report *continued*

The CSR programme includes communities in the neighbouring countries of Botswana, Lesotho, Namibia and Swaziland where the group has a retail presence. The group supports the SOS Children's Homes in these countries with merchandise as well as funding for operating expenses.

Customers

Customer profile
Customers of Lewis and Best Home and Electric are middle class consumers in the LSM 4 to 7 categories. Customers are generally family oriented and from black communities, with 58% of customers being female. The group ensures that customers are serviced by staff from their own communities, with stores located close to where Lewis customers work, shop, live and commute.

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

A range of research tools are used to monitor customer service levels, including mystery shopping, telephonic assessments and courtesy surveys among new customers.

Independent mystery shoppers visit all stores across the three retail businesses on a regular basis. These "shoppers" assess the professionalism of sales staff, the store image, sales skills and product knowledge of store staff, merchandise presentation and pricing, and gain an overall impression of the customers' visit to a store.

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

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

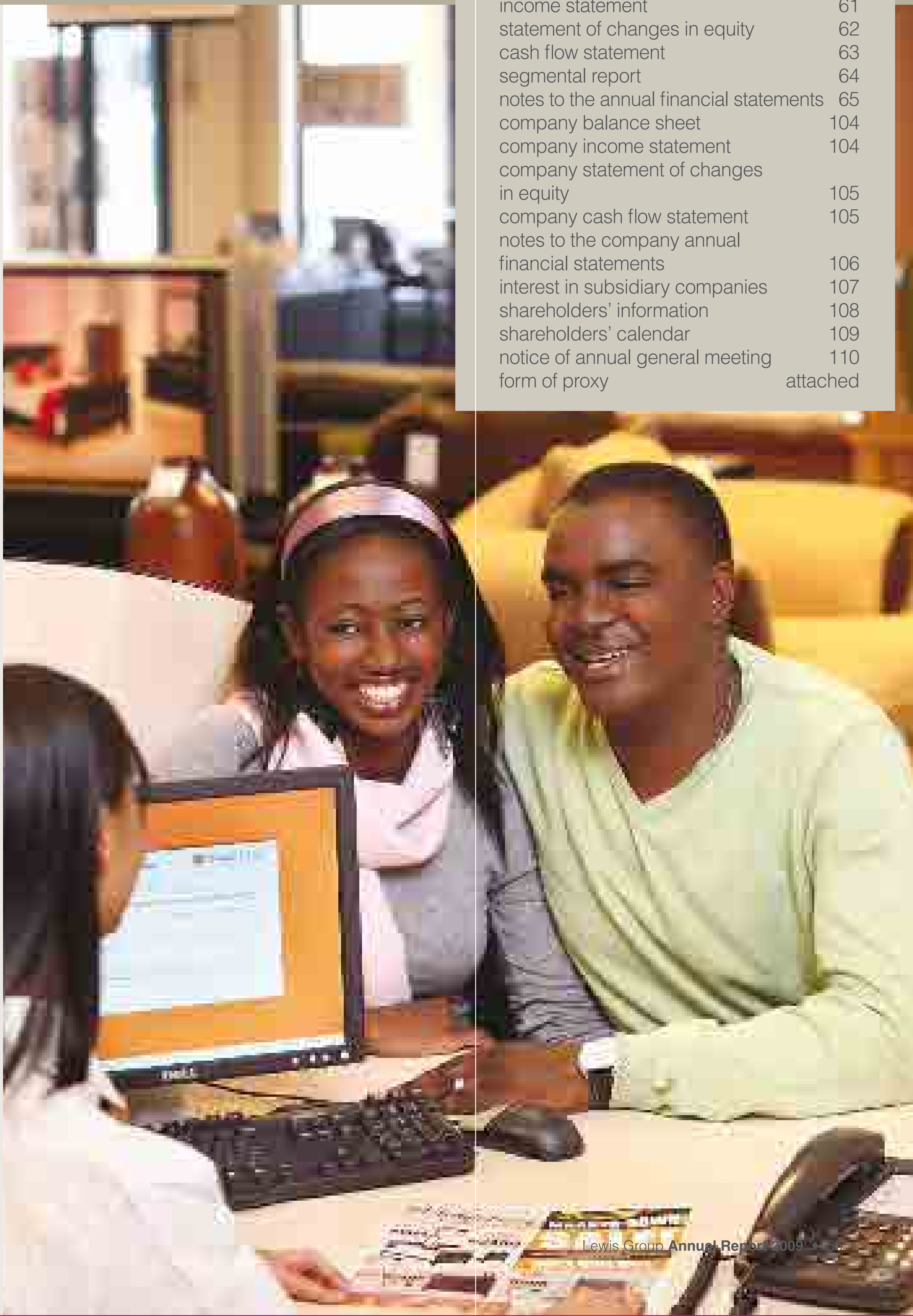
Environment

While environmental management is at an early stage at Lewis, management recognises that business activities do affect the environment and are taking active steps to reduce the impact. Focus areas include:

- minimising electricity and water consumption;
- contracting waste disposal companies to recycle consumables such as stationery, paper and plastic; and
- optimising fuel and oil consumption by ensuring that vehicles operate efficiently and that deliveries are efficiently executed.

An environmental policy is being developed to enable the group to manage the impact of its activities and to measure performance. The policy covers compliance with environmental legislation, measuring and reducing environmental impacts and reporting on impacts. The group also encourages suppliers to manage the environmental impact of their business activities.

Three classrooms built at St. Christophers Primary School, Sakhamakhanya, Stanger



directors' responsibility statement

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

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

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

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

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

The board of directors have reviewed the business of the group together with budget and cash flows for the year to 31 March 2010 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 report appears on page 57.

The financial statements of the group and the company for the year ended 31 March 2009, which appear on pages 58 to 107 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
18 May 2009

company secretary's certificate

In my capacity as company secretary, I hereby confirm to the best of my knowledge and belief that all returns required of a public company have, in respect of the year under review, been lodged with the Registrar of Companies and that all such returns are true, correct and up to date.

M G McConnell
Company Secretary

Cape Town
18 May 2009

independent auditor's report

To the shareholders of Lewis Group Limited

We have audited the group annual financial statements and annual financial statements of Lewis Group Limited, which comprise the consolidated and separate balance sheets as at 31 March 2009, the consolidated and separate income statements, the consolidated and separate statements of changes in equity and the consolidated and separate cash flow statements for the year then ended, a summary of significant accounting policies and other explanatory notes and the directors' report, as set out on pages 58 to 107.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of Lewis Group Limited as at 31 March 2009, its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

PricewaterhouseCoopers Inc

PricewaterhouseCoopers Inc
Director: B M Deegan
Registered Auditor

Cape Town
18 May 2009

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 427 Lewis, 88 Best Home and Electric and 20 Lifestyle Living stores. Sales are mainly on credit. Monarch Insurance Company Limited, a registered short-term insurer, underwrites Customer Protection Insurance benefits to South African customers. In addition, there are also trading subsidiaries in Botswana, Lesotho, Namibia and Swaziland operating under the Lewis brand.

The nature of the business of the subsidiaries is set out on page 107.

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 60 to 107.

Segmental analysis

Segmental information is set out in the segmental report on page 64 of the annual financial statements.

Post-balance sheet events

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

Share capital

The company's authorised share capital remained unchanged during the year. During the year, 1 100 000 shares were cancelled, arising from open market purchases of its own shares by the company.

Treasury shares

The group has purchased 9 216 928 (9.2%) of its own shares on the open market through its subsidiary, Lewis Stores (Proprietary) Limited. Refer note 7.1 and 7.2 for more detail.

The Lewis Employee Incentive Scheme Trust effectively holds 1 020 780 shares, of which 224 194 are unallocated and 796 586 retained to cover share awards 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 2009:

	Dividend per share	Date declared	Payable
Interim – declared	144 cents	10 Nov 2008	26 Jan 2009
Final – proposed	179 cents	18 May 2009	27 July 2009
For the year	323 cents		

Notice is hereby given that a final cash dividend of 179 cents per share in respect of the year ended 31 March 2009 has been declared, payable to the holders of ordinary shares recorded in the books of the company on Friday, 24 July 2009. The last day to trade cum dividend will therefore be Friday, 17 July 2009 and Lewis shares will trade ex-dividend from Monday, 20 July 2009. Payment of the dividend will be made on Monday, 27 July 2009. Share certificates may not be dematerialised or rematerialised between Monday, 20 July 2009 and Friday, 24 July 2009, both days inclusive.

Directors

David Nurek, Alan Smart, Hilton Saven, Ben van der Ross, Professor Fatima Abrahams and Les Davies remained directors during the year.

In terms of the Articles of Association of the company, David Morris Nurek and Professor Fatima Abrahams will retire and have offered themselves for re-election.

Company secretary

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

Directors' interests

At 31 March 2009, the directors' beneficial direct and indirect interest in the company's issued shares were as follows:

	2009		2008	
	Direct	**Indirect**	Direct	Indirect
D M Nurek	**–**	**10 000**	–	10 000
H Saven	**–**	**2 940**	–	2 940
A J Smart	**260 555**	**40 259**	260 555	40 259
L A Davies	**50 000**	**25 337**	50 000	15 530
	310 555	**78 536**	310 555	68 729

The following share awards have been made to directors:

A J Smart	146 571
L A Davies	116 622

Full details of the terms and conditions in relation to these options and share awards are set out in note 17.4 to the financial statements.

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

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

Subsidiary companies

Details of the company's subsidiaries are set out on page 107.

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

	2009 Rm	2008 Rm
Profits	**571.0**	646.8
Losses	**–**	(0.1)

Borrowing powers

Borrowings were R737.0 million at 31 March 2009 (2008: R703.4 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 15 August 2008, the following special resolution was passed:

General authority to repurchase Company shares

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

balance sheet
at 31 March 2009

	Notes	Group 2009 Rm	Group 2008 Rm
Assets			
Non-current assets			
Property, plant and equipment	3	**229.7**	200.6
Investments – insurance business	4	**535.1**	505.4
		764.8	706.0
Current assets			
Investments – insurance business	4	**199.1**	159.5
Inventories	5	**228.0**	230.4
Trade and other receivables	6	**2 943.7**	2 615.6
Taxation		**–**	29.6
Cash on hand and deposits		**54.8**	66.8
		3 425.6	3 101.9
Total assets		**4 190.4**	3 807.9
Equity and liabilities			
Capital and reserves			
Share capital and premium	7	**97.8**	149.1
Other reserves	8	**107.4**	128.4
Retained earnings	9	**2 734.7**	2 452.5
		2 939.9	2 730.0
Non-current liabilities			
Long-term interest-bearing borrowings	10	**100.0**	–
Deferred taxation	11	**53.0**	14.4
Retirement benefits	12	**53.9**	57.7
		206.9	72.1
Current liabilities			
Trade and other payables	13	**404.1**	302.4
Taxation		**2.5**	–
Short-term interest-bearing borrowings	14	**637.0**	703.4
		1 043.6	1 005.8
Total equity and liabilities		**4 190.4**	3 807.9

income statement

for the year ended 31 March 2009

	Notes	Group 2009 Rm	Group 2008 Rm
Revenue		**3 807.1**	3 596.4
Merchandise sales		**1 919.9**	1 889.7
Finance charges earned		**826.6**	794.9
Insurance premiums earned	15	**581.4**	564.2
Ancillary services		**479.2**	347.6
Cost of merchandise sales	16	**(1 318.3)**	(1 272.1)
Operating costs		**(1 648.5)**	(1 393.9)
Employment costs	17	**(538.4)**	(504.2)
Administration and IT		**(173.1)**	(167.0)
Debtor costs	18	**(338.8)**	(190.4)
Marketing		**(124.0)**	(107.1)
Occupancy costs		**(150.5)**	(135.1)
Transport and travel		**(138.8)**	(127.3)
Depreciation		**(45.8)**	(40.9)
Other operating costs		**(139.1)**	(121.9)
Operating profit	20	**840.3**	930.4
Investment income	21	**76.9**	71.7
Profit before finance costs		**917.2**	1 002.1
Net finance costs		**(86.5)**	(56.8)
Interest paid	22.1	**(108.5)**	(68.2)
Interest received	22.2	**11.5**	6.5
Forward exchange contracts	22.3	**10.5**	4.9
Profit before taxation		**830.7**	945.3
Taxation	23	**(263.7)**	(303.0)
Net profit attributable to ordinary shareholders		**567.0**	642.3
Earnings per share (cents)	24	**642.8**	717.0
Diluted earnings per share (cents)	24	**639.7**	715.2
Dividends paid per share (cents)		**323.0**	294.0
Dividends declared per share (cents)		**323.0**	323.0

statement of changes in equity

for the year ended 31 March 2009

	Notes	Group 2009 Rm	Group 2008 Rm
Share capital and premium	7	**97.8**	149.1
Opening balance		**149.1**	311.4
Cost of own shares acquired:			
Treasury shares		**(12.9)**	(112.4)
Cancelled shares		**(38.4)**	(50.0)
Share awards to employees		**–**	0.1
Other reserves	8	**107.4**	128.4
Opening balance		**128.4**	156.5
Fair value adjustments of available-for-sale investments, net of tax		**(40.0)**	(27.5)
Disposal of available-for-sale investments recognised		**2.4**	(21.3)
Share-based payment		**10.6**	6.7
Transfer of share-based payment reserve to retained income on vesting		**(0.2)**	(0.9)
Transfer to contingency reserve		**1.8**	9.0
Foreign currency translation reserve		**4.4**	5.9
Retained earnings	9	**2 734.7**	2 452.5
Opening balance		**2 452.5**	2 059.3
Net profit attributable to ordinary shareholders		**567.0**	642.3
Profit on sale of own shares		**1.1**	21.8
Transfer of share-based payment reserve to retained income on vesting		**0.2**	0.9
Cost of share awards to employees		**–**	(0.1)
Transfer to contingency reserve		**(1.8)**	(9.0)
Distribution to shareholders	25	**(284.3)**	(262.7)
Balance at 31 March 2009		**2 939.9**	2 730.0

cash flow statement

for the year ended 31 March 2009

		Group	
	Notes	**2009 Rm**	2008 Rm
Cash flow from operating activities			
Cash generated from operations	26.1	**669.7**	556.2
Interest and dividends received		**96.3**	61.0
Interest paid		**(108.5)**	(68.2)
Taxation paid	26.2	**(185.6)**	(290.4)
Cash retained from operating activities		**471.9**	258.6
Cash utilised in investing activities			
Net additions to insurance business investments		**(111.7)**	(43.2)
Acquisition of property, plant and equipment		**(77.0)**	(59.8)
Proceeds on disposal of property, plant and equipment		**5.7**	5.7
Net cash outflow from investing activities		**(183.0)**	(97.3)
Cash effects of financing activities			
Purchase of own shares		**(51.3)**	(162.4)
Dividends paid		**(284.3)**	(262.7)
Proceeds on sale of own shares		**1.1**	21.8
Increase in long-term borrowings		**100.0**	–
Finance lease liability		**–**	(1.0)
Net cash outflow from financing activities		**(234.5)**	(404.3)
Net increase/(decrease) in cash and cash equivalents		**54.4**	(243.0)
Cash and cash equivalents at the beginning of the year		**(636.6)**	(393.6)
Cash and cash equivalents at the end of the year	26.3	**(582.2)**	(636.6)

segmental report

for the year ended 31 March 2009

	Group			
	Retail	Risk services	Financial services	Total
Primary segment	Rm	Rm	Rm	Rm
2009				
Revenue	**2 213.6**	**581.4**	**1 012.1**	**3 807.1**
Operating profit	**286.1**	**182.8**	**371.4**	**840.3**
Operating margin	**12.9%**	**31.4%**	**36.7%**	**22.1%**
Total assets	**426.4**	**754.6**	**3 009.4**	**4 190.4**
Total current liabilities	**163.6**	**195.1**	**684.9**	**1 043.6**
Capital expenditure	**50.9**	**–**	**26.1**	**77.0**
Depreciation	**24.1**	**–**	**21.7**	**45.8**
2008				
Revenue	2 141.0	564.3	891.1	3 596.4
Operating profit	307.3	175.4	447.7	930.4
Operating margin	14.4%	31.1%	50.2%	25.9%
Total assets	421.7	688.1	2 698.1	3 807.9
Total current liabilities	114.7	139.9	751.2	1 005.8
Capital expenditure	30.9	–	28.9	59.8
Depreciation	22.3	–	18.6	40.9

	South Africa	BLNS(*)	Total
Geographical	Rm	Rm	Rm
2009			
Revenue	**3 364.0**	**443.1**	**3 807.1**
Operating assets	**3 827.0**	**363.4**	**4 190.4**
Capital expenditure	**73.1**	**3.9**	**77.0**
2008			
Revenue	3 218.1	378.3	3 596.4
Operating assets	3 460.5	317.8	3 778.3
Capital expenditure	55.5	4.3	59.8

(*) Botswana, Lesotho, Namibia and Swaziland

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

notes to the annual financial statements

for the year ended 31 March 2009

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 2009 financial statements:

IFRIC 14: The limit on a defined benefit asset and minimum funding requirements
IFRS 7 and IAS 39 amendments: Reclassification of Financial Assets

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 2009 and the financial position as at 31 March 2009.

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

IFRS 2: Share-based Payment (amendment)
IFRS 3: Business Combinations (revised)
IFRS 7: Financial Instruments: Disclosure (amendment)
IFRS 8: Operating Segments
IAS 1: Presentation of Financial Statements (revised)
IAS 10: Events after the reporting period (amendment)
IAS 16: Property, plant and equipment (amendment)
IAS 18: Revenue (amendment)
IAS 19: Employee Benefits (amendment)
IAS 27: Consolidated and Separate Financial Statements (revised)
IAS 34: Interim Financial Reporting (amendment)
IAS 36: Impairment of assets (amendment)
IAS 39: Financial Instruments: Recognition and Measurement (amendment)
IFRIC 13: Customer loyalty programmes
AC 504: Limit on a defined benefit asset and minimum funding requirements and their interaction in the South African pension fund environment.

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

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

1.1 **Basis of consolidation**

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

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

If the cost of the acquisition is less than the fair value of the net assets acquired, the difference is recognised directly in the income statement.

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 company's functional currency and the group and company's presentation currency.

1.3.2 Foreign currency transactions and balances

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

1.3.3 Foreign entities

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

1.4 **Financial instruments**

1.4.1 Cash and cash equivalents

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

1.4.2 Derivative instruments

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

1.4.3 Financial assets

Investments are classified into three categories, based on the purpose for which the investment was acquired. The classification is determined on initial recognition. Derivative instruments are accounted for in terms of note 1.4.2.

The investments are classified as follows:

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

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

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

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

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

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

1.4.4 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 original effective interest rate. Changes in the provision are recognised in the income statement.

1.4.5 Financial liabilities

(i) Borrowings

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

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

(ii) Trade payables

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

1.4.6 Set-off

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

1.5 Property, plant and equipment

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

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

Assets are depreciated to their residual value, on a straight-line basis, over their estimated useful lives.

The estimated useful lives of the assets in years are:

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

Land is not depreciated.

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

1.6 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 **Current and deferred taxation**

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

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

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

1.10 **Provisions**

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

1.11 **Insurance business**

1.11.1 Classification

Insurance contracts are those contracts that transfer significant risk. The group defines significant insurance risk as the possibility of having to pay benefits on the 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. Claims and expenses are charged to income as incurred, based on the estimated liability for compensation owed to insurance policyholders. The group's own assessors individually assess claims. Outstanding claims provisions are not discounted.

1.11.3 Contingency reserve

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

1.11.4 Provision for unearned premiums

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

1.11.5 Reinsurance

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

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

1.12 Segmental information

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

The group's main segments are:

(i) Retail

The retail segment encompasses the sale of merchandise, delivery and maintenance contracts.

(ii) Financial services

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

(iii) Risk services

Risk services cover the insurance activities of the group.

1.13 Current assets and liabilities

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

1.14 Treasury shares

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

1.15 Employee benefits

1.15.1 Retirement plans

The group operates a number of defined benefit and defined contribution plans, the assets of which are held in separate trustee-administered funds. These plans are funded by payments from employees and group companies, taking into account the recommendations of independent, qualified actuaries. Pension costs are assessed annually by a qualified actuary, in terms of IAS 19, using the 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 service and performance vesting conditions. Non-market vesting conditions are included in the assumptions about the number of options that are expected to become exercisable. The total amount expensed is recognised over the vesting period, which is the period over which all vesting conditions are to be satisfied. At each balance sheet date, the group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity. Any accelerated vesting of the share awards and options requires immediate recognition of the remaining expense.

1.15.4 Leave pay accrual

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

1.16 Trading cycle

The group's trading cycle, consistent with prior financial periods, ends on the 5th day after the month being reported on, unless such day falls on a Sunday, in which case it ends on the 4th day.

1.17 Revenue recognition

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

(i) Merchandise sales

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

(ii) Finance charges earned

For contracts entered into prior to the implementation of the National Credit Act ("NCA"), finance charges are recognised on a sum-of-digits basis which closely approximates the effective yield basis. For contracts entered into subsequent to the implementation of the NCA, finance charges are recognised by reference to the daily principle outstanding and the effective interest rate implicit in the agreement.

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

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

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

2. **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**

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

2.5 **Retirement benefits**

The underlying actuarial assumptions are set out in note 12.

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

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

	Group			
	Land and buildings Rm	Leased equipment Rm	Vehicles and fixtures Rm	Total Rm
3. **Property, plant and equipment**				
As at 31 March 2009				
Opening net carrying value	**84.2**	**–**	**116.4**	**200.6**
Additions	**27.7**	**–**	**49.3**	**77.0**
Disposals	**–**	**–**	**(2.1)**	**(2.1)**
Depreciation	**(1.0)**	**–**	**(44.8)**	**(45.8)**
Closing net carrying value	**110.9**	**–**	**118.8**	**229.7**
Cost	**116.5**	**14.9**	**361.6**	**493.0**
Accumulated depreciation	**(5.6)**	**(14.9)**	**(242.8)**	**(263.3)**
As at 31 March 2008				
Opening net carrying value	82.8	–	100.1	182.9
Additions	2.2	–	57.6	59.8
Disposals	–	–	(1.2)	(1.2)
Depreciation	(0.8)	–	(40.1)	(40.9)
Closing net carrying value	84.2	–	116.4	200.6
Cost	88.8	14.9	336.4	440.1
Accumulated depreciation	(4.6)	(14.9)	(220.0)	(239.5)

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

notes to the annual financial statements

for the year ended 31 March 2009 *continued*

	Group 2009 Rm	Group 2008 Rm
4. **Investments – insurance business**		
Listed investments		
Listed shares – available-for-sale	**183.8**	192.5
Fixed income securities – available-for-sale	**351.3**	312.9
Unlisted investments		
Money market – available-for-sale	**199.1**	159.5
	734.2	664.9
Analysed as follows		
Non-current	**535.1**	505.4
Current	**199.1**	159.5
	734.2	664.9
Movement for the year		
Beginning of the year	**664.9**	660.4
Net additions to investments	**114.3**	65.3
Movement in fair value transferred to equity	**(45.0)**	(60.8)
End of the year	**734.2**	664.9

A register of listed investments is available for inspection at the company's registered office. Regular purchases and sales of financial assets are accounted for on the trade date.

	Group 2009 Rm	Group 2008 Rm
5. **Inventories**		
Cost of merchandise	**251.8**	255.1
Less: provision for obsolescence	**(23.8)**	(24.7)
	228.0	230.4

	Group 2009 Rm	Group 2008 Rm
6. Trade and other receivables		
Instalment sale and loan receivables	**4 007.2**	3 539.8
Provision for unearned finance charges and unearned maintenance income	**(181.1)**	(263.7)
Provision for unearned initiation fees	**(78.3)**	(46.9)
Provision for unearned insurance premiums	**(360.0)**	(290.5)
Unearned insurance premiums	**(598.1)**	(479.1)
Less: re-insurer's share of unearned premiums	**238.1**	188.6
Net instalment sale and loan receivables	**3 387.8**	2 938.7
Provision for doubtful debts	**(532.7)**	(395.8)
	2 855.1	2 542.9
Other receivables	**88.6**	72.7
	2 943.7	2 615.6

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

	Group 2009 Rm	Group 2008 Rm
7. Share capital and premium		
7.1 Share capital and premium		
Share capital	**1.0**	1.0
Share premium	**2 710.6**	2 749.0
Reverse acquisition reserve	**(2 123.1)**	(2 123.1)
	588.5	626.9
Treasury shares:		
Lewis Stores (Pty) Ltd	**(477.8)**	(477.8)
Lewis Employee Share Incentive Scheme Trust	**(12.9)**	–
Total share capital and premium	**97.8**	149.1

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

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

	Group	
	2009	2008
	000's	000's
7. Share capital and premium continued		
7.2 Number of ordinary shares in issue		
Number of shares issued	**98 058**	99 158
Treasury shares held by:		
Lewis Stores (Pty) Ltd	**(9 217)**	(9 217)
Lewis Employee Share Incentive Scheme Trust	**(1 021)**	(655)
Number of shares in issue	**87 820**	89 286
	Rm	Rm
8. Other reserves		
Comprising:		
Fair value reserve	**55.7**	93.3
Foreign currency translation reserve	**(10.9)**	(15.3)
Share-based payment reserve	**18.8**	8.4
Other	**0.8**	0.8
	64.4	87.2
Statutory insurance contingency reserve	**43.0**	41.2
	107.4	128.4
Detailed movements in the other reserves are disclosed in the statement of changes in equity.		
9. Retained earnings		
Comprising:		
Company	**83.6**	50.3
Consolidated subsidiaries	**2 651.1**	2 402.2
	2 734.7	2 452.5

Distribution of all reserves by South African subsidiaries would give rise to STC of R231.6 million (2008: R233.1 million).

Distribution by certain foreign subsidiaries will give rise to withholding taxes of R30.5 million (2008: R26.4 million).

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

	Group 2009 Rm	Group 2008 Rm
10. **Interest-bearing borrowings**		
These borrowings mature on 29 August 2011 and are unsecured. Interest is payable on a nominal annual compounded quarterly rate (nacq) and is based on the 3 month JIBAR rate plus 165 basis points.	**100.0**	–
	100.0	–
11. **Deferred taxation**		
Balance at the beginning of the year	**14.4**	(77.5)
Movement for the year attributable to:		
Income statement credit	**46.0**	103.9
Deferred tax on fair value adjustment in equity	**(7.4)**	(12.0)
Balance at the end of the year	**53.0**	14.4
This balance comprises:		
Capital allowances	**20.9**	28.4
Debtors allowances	**75.0**	19.5
Income and expense recognition	**(1.7)**	2.2
Other provisions	**(41.2)**	(35.7)
Balance at the end of the year	**53.0**	14.4

	Group 2009 Rm	Group 2008 Rm
12. Retirement benefits		
Amounts recognised in the balance sheet		
Defined benefit retirement plan liability	**11.2**	16.9
Post-retirement healthcare benefits	**42.7**	40.8
	53.9	57.7

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 2009	No. of Employees 2008
Lewis Group Pension Fund	**273**	311
Lewis Stores Retirement Pension Fund	**32**	32
SACCAWU Provident Fund	**640**	583
Lewis Stores Provident Fund	**3 074**	2 888
Lewis Stores Namibia Provident Fund	**124**	118

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 2009.

	2009 Rm	2008 Rm
Amounts recognised in the balance sheet		
Present value of obligations	**331.0**	345.8
Fair value of plan assets	**(324.6)**	(362.1)
	6.4	(16.3)
Unrecognised actuarial gains	**4.8**	33.2
Defined benefit retirement plan liability	**11.2**	16.9

	Group	
	2009	2008
	Rm	Rm
12. **Retirement benefits continued**		
Amounts recognised in the income statement		
Current service cost	**11.4**	11.1
Interest cost	**28.8**	25.5
Expected return on plan assets	**(35.1)**	(30.6)
Net actuarial losses recognised in the year	**2.5**	1.6
Total included in staff costs	**7.6**	7.6
Movement in retirement benefit liability		
Present value at the beginning of the year	**16.9**	27.1
Income statement charge	**7.6**	7.6
Contributions paid during the year	**(13.3)**	(17.8)
Present value at the end of the year	**11.2**	16.9
Present value of defined benefit obligations		
Beginning of year	**345.8**	303.2
Current service cost	**11.4**	11.1
Interest cost	**28.8**	25.5
Employee contributions	**1.7**	1.8
Benefit payments	**(36.6)**	(18.1)
Actuarial loss	**(20.1)**	22.3
End of year	**331.0**	345.8
Fair value of defined benefit plan assets		
Beginning of year	**362.1**	305.6
Employee contributions	**1.7**	1.8
Employer contributions	**13.1**	17.8
Expected return	**35.1**	30.6
Benefit payments	**(36.6)**	(18.1)
Actuarial gain	**(50.8)**	24.4
End of year	**324.6**	362.1

	Group	
	2009	2008
	Rm	Rm
12. **Retirement benefits continued**		
Principal actuarial assumptions used were as follows:		
Discount rate	**9.00%**	9.50%
Expected return on plan assets	**10.00%**	10.00%
Inflation rate	**6.00%**	6.50%
Future salary increases	**7.00%**	7.75%
Future pension increases	**6.50%**	6.50%
Assumptions regarding future mortality experience are based on advice, published statistics and experience. The average life expectancy in years of a pensioner retiring at age 65 on valuation date is as follows:		
Male	**13.7 years**	12.6 years
Female	**15.7 years**	14.0 years
Actual return on plan assets	**(5.4%)**	18.2%
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	**18.8**	17.5
Post-retirement healthcare benefits		
The group provides a subsidy of medical aid contributions to retired employees. Only those employees employed prior to 1 August 1997 qualify for this benefit. The liability was valued as at 31 March 2009 by a qualified actuary in accordance with the requirements of IAS 19. The group has a commitment to meet these unfunded benefits.		
Amounts recognised in the income statement		
Current service cost	**0.9**	0.9
Interest cost	**3.3**	2.9
Actuarial gain	**(0.4)**	(1.6)
Income statement charge	**3.8**	2.2
Movement in post-retirement healthcare liability		
Present value of liability at the beginning of the year	**40.8**	40.5
Charged to income statement	**3.8**	2.2
Employer benefit payments	**(1.9)**	(1.9)
Post-retirement healthcare benefits liability	**42.7**	40.8

	Group 2009 Rm	Group 2008 Rm
12. Retirement benefits continued		
Present value of post-retirement healthcare obligations		
Beginning of year	**40.8**	40.5
Current service cost	**0.9**	0.9
Interest cost	**3.3**	2.9
Benefit payments	**(1.9)**	(1.9)
Actuarial gain	**(0.4)**	(1.6)
End of year	**42.7**	40.8
Principal actuarial assumptions used were as follows:		
Healthcare inflation rate	**5.75%**	5.50%
CPI inflation	**5.75%**	5.50%
Discount rate	**9.00%**	8.75%
Average retirement age (years)	**63**	63
Sensitivity	**Increase**	**Decrease**
The effects of a 1% movement in the assumed medical aid inflation rate were as follows:		
Effect on aggregate of the current service and interest cost	**0.7**	(0.5)
Effect on defined benefit obligation	**5.8**	(4.8)
Trends	**Obligation**	**Experience adjustments gain/(loss)**
The trends of the present value of the obligation and experience adjustments are as follows:		
2009	**42.7**	0.2
2008	**40.8**	0.2
2007	**40.5**	2.4
2006	**41.2**	4.9
2005	**34.7**	(2.7)
2004	**30.8**	2.0

notes to the annual financial statements

for the year ended 31 March 2009 *continued*

	Group 2009 Rm	Group 2008 Rm
13. Trade and other payables		
Trade payables	**84.8**	59.6
Accruals and other payables	**142.9**	107.3
Due to reinsurers	**105.3**	102.7
Insurance provisions	**71.1**	32.8
	404.1	302.4
14. Short-term interest-bearing borrowings		
These borrowings are unsecured. The average closing interest rate on these borrowings was 12.08% (2008: 12.76%).	**637.0**	703.4
	637.0	703.4
15. Insurance premiums earned		
Gross insurance premiums	**645.8**	615.3
Reinsurance commission	**197.3**	203.4
Reinsurance premiums	**(261.7)**	(254.5)
	581.4	564.2
16. Cost of merchandise sales		
Purchases	**1 315.9**	1 272.2
Movement in inventory	**2.4**	(0.1)
Cost of merchandise sales	**1 318.3**	1 272.1
Merchandise gross profit	**601.6**	617.6
17. Directors and employees		
17.1 Employment costs		
Salaries, wages, commissions and bonuses	**493.9**	466.3
Retirement benefit costs	**30.2**	27.3
Share-based payments	**10.6**	6.7
Other employment costs	**3.7**	3.9
	538.4	504.2

17.2 Share-based payments

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

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

	Group 2009	Group 2008
	Rm	Rm
17. Directors and employees continued		
17.2 Share-based payments continued		
Value of services provided:		
In respect of share awards and options granted subsequent to date of listing (refer note 17.3)	**10.6**	6.7
	R	R
Significant assumptions used were:		
Weighted average share price	**47.52**	56.40
Weighted average expected volatility	**48.7%**	42.6%
Weighted average expected dividend yield	**6.5%**	4.4%
Weighted average risk-free rate (bond yield curve at date of grant)	**9.7%**	8.7%

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

17.3 Share incentive schemes

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

	No. of shares and options 2009	No. of shares and options 2008
Lewis All Employee Share Scheme		
In terms of the rules of the share scheme, participants are granted an award to receive shares for no consideration. Participants will only receive their share award if they remain in the employ of the group until vesting date. Share awards under this scheme usually vest between two and four years.		
Beginning of year	**–**	–
Granted	**6 080**	–
Forfeited	**–**	–
Vested and exercised by payment of consideration	**–**	–
End of year	**6 080**	–
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 been granted. In terms of the scheme's rules, the options vest immediately, should there be a change in control.		
Beginning of year	**–**	662,416
Granted	**–**	–
Forfeited	**–**	–
Vested and exercised by payment of consideration	**–**	(662,416)
End of year	**–**	–

	Group	
	2009	2008
	No. of shares and options	
17. **Directors and employees continued**		
17.3 **Share incentive schemes continued**		
Lewis Executive Performance Scheme		
In terms of the scheme, senior executives have been offered the right to acquire shares of the group for no consideration subject to the achievement of performance targets. The shares will vest after three years and is conditional upon the executive still being in the employ of the company other than in the event of death, ill-health, retirement or retrenchment.		
The performance targets are set by the Remuneration and Nomination Committee and are approved by the Board. These targets will be set at the beginning of each of the three years and a proportionate number of the shares granted will be allocated to each year.		
No performance shares will accrue if the group achieves less than 90% of target. Any achievement between 90% and 100% of target will result in a proportionate accrual of shares weighted towards 100% of target.		
Beginning of year	**294 312**	185 639
Granted	**287 747**	184 270
Forfeited	**(5 333)**	(52 648)
Vested	**(3 755)**	(22 949)
End of year	**572 971**	294 312
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	**167 321**	89 322
Granted	**50 214**	88 179
Forfeited	**–**	(3 393)
Vested	**–**	(6 787)
End of year	**217 535**	167 321
Invested shares paid for through the investment of executives' net bonuses amounted to 130 518 shares (2008: 106 498 shares). These shares are held by the Trust on the executives' behalf.		

	Group 2009 R	Group 2008 R
17. Directors and employees continued		
17.4 Directors' emoluments		
Non-executive directors – fees as directors		
D M Nurek	**533 000**	495 000
H Saven	**372 000**	341 000
B van der Ross	**273 000**	253 000
F Abrahams	**273 000**	253 000
	1 451 000	1 342 000
Executive director – A J Smart (paid by subsidiary)		
Salary	**2 440 000**	2 240 000
Bonuses	**1 120 000**	2 000 000
Contributions to pension scheme	**390 400**	358 400
Contribution to medical aid	**46 488**	42 000
Other material benefits	**158 400**	158 400
Gains on options	**–**	4 799 673
	4 155 288	9 598 473
Executive director – L A Davies (paid by subsidiary)		
Salary	**1 283 335**	1 100 000
Bonuses	**550 000**	900 000
Contributions to pension scheme	**205 333**	176 000
Contribution to medical aid	**66 289**	50 475
Other material benefits	**172 320**	161 520
Gains on options	**–**	1 094 652
	2 277 277	3 482 647

	Group	
	2009	2008
	R	R
17. **Directors and employees continued**		
17.4 **Directors' emoluments continued**		
Gains on options – executive directors		
A J Smart		
Options exercised	–	219 428
Offer date	–	4 Oct 2004
Date exercised	–	25 May 2005
Date of release from undertakings not to dispose of shares	–	12 Nov 2007
Exercise price (R)	–	28.00
Exercise cost (R)	–	6 143 984
Sale proceeds/market value of shares transferred (R)	–	10 943 657
Gain	–	4 799 673
L A Davies		
Options exercised	–	50 000
Offer date	–	4 Oct 2004
Date exercised	–	26 May 2005
Date of release from undertakings not to dispose of shares	–	12 Nov 2007
Exercise price (R)	–	28.00
Exercise cost (R)	–	1 400 000
Sale proceeds (R)	–	2 494 652
Gain	–	1 094 652

	Group 2009	Group 2008
	No. of shares/options	
17. Directors and employees continued		
17.4 Directors' emoluments continued		
Outstanding share awards and options – executive directors		
Share awards under Lewis Executive Performance Scheme granted (refer note 17.3):		
Granted on 30 June 2006:		
A J Smart	**44 753**	44 753
L A Davies	**22 287**	22 287
Granted on 11 June 2007:		
A J Smart	**34 718**	34 718
L A Davies	**17 049**	17 049
Granted on 24 June 2008:		
L A Davies	**35 057**	
Matching share options under Lewis Co-Investment Scheme (refer note 17.3):		
Granted on 30 June 2006:		
A J Smart	**36 344**	36 344
L A Davies	**12 044**	12 044
Granted on 19 June 2007:		
A J Smart	**30 756**	30 756
L A Davies	**13 840**	13 840
Granted on 24 June 2008:		
L A Davies	**16 345**	
The Trust holds 65 596 shares (2008: 55 789 shares) on their behalf by virtue of the investment of their bonuses into the scheme.		
	Rm	Rm
17.5 Remuneration of key executives		
Salary	**9.0**	7.3
Bonus	**3.5**	6.3
Retirement and medical contributions	**1.4**	1.5
Other benefits	**1.3**	0.7
	15.2	15.8
Key executives compromise the directors of Lewis Stores (Pty) Ltd, the main operating subsidiary.		

notes to the annual financial statements

for the year ended 31 March 2009 *continued*

	Group	
	2009	2008
	R	R
18. **Debtor costs**		
Bad debts, repossession losses and bad debt recoveries	**201.9**	172.1
Movement in doubtful debts provision	**136.9**	18.3
	338.8	190.4
19. **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	**96.3**	90.4
Two to five years	**181.5**	208.7
Over five years	**–**	–
	277.8	299.1
Payments on a straight-line basis:		
Within one year	**95.0**	92.0
Two to five years	**166.5**	193.7
Over five years	**–**	0.1
	261.5	285.8
20. **Operating profit is stated after**		
Initiation and service fees on accounts receivable	**185.1**	95.7
Surplus on disposal of property, plant and equipment	**3.6**	4.5
Depreciation		
Owned assets	**45.8**	40.9
Leased assets	**–**	–
	45.8	40.9
Fees payable:		
Investment management fee – insurance investments	**2.0**	1.8
Outsourcing of IT function	**33.5**	28.7
	35.5	30.5
Operating lease payments on a cash flow basis	**118.2**	105.9
Lease adjustment	**2.7**	4.9
Operating leases on a straight-line basis	**120.9**	110.8
Auditors' remuneration		
Audit fees – current year	**1.4**	1.4
– prior year underprovision	**0.2**	0.2
Other services	**0.4**	0.3
	2.0	1.9

	Group 2009 R	Group 2008 R
21. **Investment income**		
Interest – insurance business	**55.3**	42.3
Dividends from listed investments – insurance business	**19.0**	7.3
Realised profit on disposal of insurance investments	**2.6**	22.1
	76.9	71.7
22. **Net finance costs**		
22.1 **Interest paid**		
Bank loans and overdrafts	**105.4**	68.1
Other	**3.1**	0.1
	108.5	68.2
22.2 **Interest received**		
Bank	**(10.5)**	(5.7)
Other	**(1.0)**	(0.8)
	(11.5)	(6.5)
22.3 **Forward exchange contracts**		
Realised	**1.7**	1.0
Unrealised	**(12.2)**	(5.9)
	(10.5)	(4.9)
22.4 **Net finance costs**	**86.5**	56.8

	Group	
	2009	2008
	Rm	Rm
23. **Taxation**		
23.1 **Taxation charge**		
South Africa	**244.0**	285.6
Foreign	**19.7**	17.4
Taxation per income statement	**263.7**	303.0
Comprising:		
Normal taxation		
Current year	**194.8**	168.0
Prior year	**(5.5)**	0.5
Deferred taxation		
Current year	**40.1**	104.2
Prior year	**5.9**	(0.2)
Rate change	**–**	(0.1)
Secondary Tax on Companies	**28.4**	30.6
Taxation per income statement	**263.7**	303.0
23.2 **The rate of taxation on profit is reconciled as follows:**		
Profit before taxation	**830.7**	945.3
Taxation calculated at a tax rate of 28% (2008: 29%)	**232.6**	274.1
Disallowed expenditure/(exempt income)	**0.2**	(3.3)
Secondary tax on companies	**28.4**	30.6
Prior years	**0.4**	0.3
Differing tax rates in foreign countries	**2.1**	1.4
Rate change	**–**	(0.1)
Taxation per income statement	**263.7**	303.0
Effective taxation rate	**31.7%**	32.1%

	Group 2009	Group 2008
	000's	000's
24. Earnings per share		
24.1 Weighted average number of shares		
Weighted average shares for earnings and headline earnings per share	**88 209**	89 583
Dilution resulting from share awards and options outstanding	**424**	220
Weighted average shares for diluted earnings and headline earnings per share	**88 633**	89 803

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.

	2009	2008
24.2 Headline earnings	**Rm**	Rm
Attributable earnings	**567.0**	642.3
Profit on disposal of property, plant and equipment	**(3.6)**	(4.5)
Profit on disposal of available-for-sale investments	**(2.6)**	(22.1)
Taxation	**1.2**	2.2
Headline earnings	**562.0**	617.9
24.3 Earnings per share	**Cents**	Cents
Earnings per share	**642.8**	717.0
Fully diluted earnings per share	**639.7**	715.2
24.4 Headline earnings per share		
Headline earnings per share	**637.1**	689.8
Fully diluted headline earnings per share	**634.1**	688.1
25. Dividends paid	**Rm**	Rm
Dividend no. 6 declared on 21 May 2007 and paid on 23 July 2007		150.0
Dividend no. 7 declared on 12 November 2007 and paid on 28 January 2008		142.8
Dividend no. 8 declared on 19 May 2008 and paid on 28 July 2008	**176.0**	
Dividend no. 9 declared on 10 November 2008 and paid on 26 January 2009	**141.2**	
Dividends received on treasury shares:		
Lewis Stores (Pty) Ltd	**(29.7)**	(27.1)
Lewis Employee Share Incentive Scheme Trust	**(3.2)**	(3.0)
	284.3	262.7

notes to the annual financial statements

for the year ended 31 March 2009 *continued*

	Group	
	2009	2008
	Rm	Rm
26. **Notes to the cash flow statements**		
26.1 **Cash generated from operations**		
Operating profit	**840.3**	930.4
Adjusted for:		
Share-based payments	**10.6**	6.7
Depreciation	**45.8**	40.9
Surplus on disposal of property, plant and equipment	**(3.6)**	(4.5)
Movement in debtors impairment provision	**136.9**	18.3
Movement in retirement benefits provision	**(3.8)**	(9.9)
Movement in other provisions	**30.4**	14.0
	1 056.6	995.9
Changes in working capital:	**(386.9)**	(439.7)
Decrease/(Increase) in inventories	**4.1**	(1.9)
Increase in trade and other receivables	**(460.6)**	(440.3)
Increase in trade and other payables	**69.6**	2.5
	669.7	556.2
26.2 **Taxation paid**		
Amount owing at the beginning of the year	**29.6**	(61.7)
Amount charged to the income statement	**(263.7)**	(303.0)
Adjustment for deferred taxation	**46.0**	103.9
Amount owing at the end of the year	**2.5**	(29.6)
	(185.6)	(290.4)
26.3 **Cash and cash equivalents**		
Cash deposits and cash on hand	**54.8**	66.8
Short-term interest-bearing borrowings	**(637.0)**	(703.4)
Cash and cash equivalents	**(582.2)**	(636.6)

27. **Financial risk management**

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

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

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

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

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

27.1 **Credit risk**

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

i) Accounts receivable

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

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

  The process differs as follows:

  - for new customers, application risk scorecards predict the risk with the emphasis for such an evaluation on information from credit bureaus and third-party information.
  - for existing customers, behavioural scorecards have been developed to assess the risk through predictive behaviour with the emphasis on the customer's payment record with Lewis, bureau and other information being considered.
- Assessing client affordability: this process involves collecting information regarding the customer's income levels, expenses and current debt obligations. Lewis has its own priority expense model based on surveys conducted with customers which is done annually.
- Determining the credit limit for the customer: the customer's risk score determined by the scorecard together with the expense assessment and outstanding obligations are used to calculate a credit limit within the customer's affordability level.

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

27. **Financial risk management continued**

27.1 **Credit risk continued**

i) Accounts receivable continued

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

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

	Group	
	2009	2008
	Rm	Rm
The total net receivable balance can be analysed as follows:		
Receivables satisfactory paid	**2 437.8**	2 207.0
Slow paying and non-performing receivables which have been impaired	**950.0**	731.7
	3 387.8	2 938.7

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

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

27. **Financial risk management continued**

27.1 **Credit risk continued**

i) Accounts receivable continued

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

	Group	
	2009	2008
1 instalment in arrear	**4.7%**	4.9%
2 instalments in arrear	**3.0%**	3.1%
3 instalments in arrear	**2.0%**	2.1%
4 instalments in arrear	**1.4%**	1.5%
4 or more instalments in arrear	**2.2%**	2.5%
	13.3%	14.1%

ii) Fixed income securities and deposits

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

Deposits are placed with high-quality South African institutions. Included in the cash on hand and deposits are bank balances held in foreign currency amounting to R11.7 million (2008: R16.7 million).

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

27.2 **Market risk**

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

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

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

i) Foreign exchange risk management

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

Imports of merchandise

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

27. **Financial risk management continued**

27.2 **Market risk continued**

During the year, 23.7% (2008: 26.6%) of the purchases were in foreign denominated currencies. Below is a summary of the amounts payable under forward contracts:

	Term	Rate	Foreign currency FC 'm	Rand equivalent R'm	Fair value (gain)/loss R'm
2009 US dollar	**Less than 9 months**	**Rates vary from R9.51 to R10.24**	**20.2**	**199.3**	**12.2**
2008 US dollar	Less than 3 months	Rates vary from R6.80 to R8.25	9.6	70.0	(5.9)

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

	-10%	-5%	+5%	+10%
2009				
Effect on (profit)/loss	**6.6**	**13.1**	**(6.6)**	**(13.1)**
(Increase)/Decrease in equity	**6.6**	**13.1**	**(6.6)**	**(13.1)**
2008				
Effect on (profit)/loss	5.4	2.7	(2.7)	(5.4)
(Increase)/Decrease in equity	5.4	2.7	(2.7)	(5.4)

Net investment in foreign entities

The currency exposure is limited to the net investment in Botswana of R77.0 million (2008: R84.8 million), which includes a long-term loan account. The currency exposure is managed by keeping the net investment at a minimum practical level by remitting cash to South Africa on a regular basis through loan repayments and dividends.

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

	-10%	-5%	+5%	+10%
2009				
(Increase)/Decrease in equity	**9.4**	**4.7**	**(4.7)**	**(9.4)**
2008				
(Increase)/Decrease in equity	9.2	4.6	(4.6)	(9.2)

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

27. **Financial risk management continued**

27.2 **Market risk continued**

ii) Interest rate risk

The principal objective of interest rate management is to:

- minimise the impact of interest rate volatility on profits in the short term
- ensure that the group is protected from volatile interest rate movements for the medium to long term

Borrowings

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

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

	+50bp	-50bp
2009		
Effect on (profit)/loss	**2.6**	**(2.6)**
(Increase)/Decrease in equity	**2.6**	**(2.6)**
2008		
Effect on (profit)/loss	2.8	(2.8)
(Increase)/Decrease in equity	2.8	(2.8)

In order to hedge exposures in the interest rate profile of peak borrowings, the group may make use of interest derivatives and other hedging instruments in terms of limits specified in the group's treasury policy approved by the Audit and Risk Committee. During the current financial year, the group entered into an interest rate swap with the counterparty being a high quality institution. The value of borrowings hedged and the fair value of these contracts as at 31 March 2009 are as follows:

	Notional amount	Maturity	Fair value (Rm)	
	Rm	date	**2009**	2008
Zero premium interest rate collars with the cap and floor rates referenced to the 3-month JIBAR rate:				
– commencing on 31 March 2008	100	30 Mar 2009	**–**	0.6
Interest rate swap with the group being the fixed rate payer at 10.58% and the counterparty being the floating rate payer				
– commencing on 30 March 2009	100	30 Mar 2010	**(2.9)**	
			(2.9)	0.6

27. **Financial risk management continued**

27.2 **Market risk continued**

ii) Interest rate risk continued

Accounts receivable

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

Interest rate profile

The interest rate profiles of financial instruments are as follows:

	Term of investment	Average closing effective interest rate %	Floating or fixed	Carrying value Rm's
2009				
Assets				
Gross instalment sale and loan receivables	**Up to 3 years**	**30.6%**	**Fixed**	**4 007.2**
Fixed income securities	**Varies**	**10.5%**	**Fixed**	**351.3**
Money market investments	**Up to 6 months**	**11.7%**	**Floating**	**199.1**
Liabilities				
Long-term interest-bearing borrowings	**Varies (refer note 10)**	**11.4%**	**Floating**	**100.0**
Short-term interest-bearing borrowings	**Varies (refer note 14)**	**12.1%**	**Floating**	**637.0**
2008				
Assets				
Gross instalment sale and loan receivables	Up to 3 years	30.8%	Fixed	3 539.8
Fixed income securities	Varies	9.4%	Fixed	312.9
Money market investments	Up to 6 months	11.1%	Floating	159.5
Liabilities				
Short-term interest-bearing borrowings	Varies (refer note 14)	12.8%	Floating	703.4

iii) Price risk

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

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

The overall management objectives of the portfolio are:

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

27. **Financial risk management continued**

27.2 **Market risk continued**

iii) Price risk continued

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

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

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

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

	2009	2008
Modified duration of Monarch's fixed income portfolio	**5.7**	5.1
Modified duration of the JSE All Bond index	**5.8**	5.1

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

Portfolio sectoral analysis:		
Resources	**15.3%**	22.5%
Financials	**21.0%**	20.3%
Industrial	**63.7%**	57.2%
Beta of portfolio relative to JSE index	**0.85**	0.88
Beta of portfolio relative to JSE index, excluding resources	**0.95**	1.02

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

27.3 **Liquidity risk**

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

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

27. Financial risk management continued

27.3 Liquidity risk continued

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

	2009	2008
	Rm	Rm
Total banking facilities	**1 250.0**	1 000.0
Less: drawn portion of facility	**(737.0)**	(703.4)
Plus cash on hand	**54.8**	66.8
Available cash resources and facilities	**567.8**	363.4

28. Insurance risk

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

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

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

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

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

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

A proportional reinsurance arrangement has been entered into by Monarch to facilitate the transfer of 40% of the risk under these policies to an external reinsurer. Catastrophe cover has been placed with third-party insurers and reinsurers in order to reduce the potential impact of a single event on the earnings and capital of Monarch.

Due to the nature of the insurance risk, claims can be measured reliably. Past experience has indicated that claims provision estimates approximate the actual claims costs. The insurance result is dependent on the trend in the group's merchandising sales. There is no significant insurance business other than with the group's customers.

28. **Insurance risk continued**

	Group 2009 Rm	Group 2008 Rm
Movement in provisions:		
(i) Unearned premium reserve		
Opening balance	**290.5**	214.3
Movement during year	**69.5**	76.2
Closing balance	**360.0**	290.5
Comprising:		
Unearned premiums	**598.1**	479.1
Less: reinsurers' share of provision	**(238.1)**	(188.6)
Net balance	**360.0**	290.5
(ii) Insurance provisions		
Insurance provisions include outstanding claims, IBNR reserve and deferred reinsurance acquisition reserve.		
Opening balance	**32.8**	26.0
Movement during year	**38.3**	6.8
Closing balance	**71.1**	32.8

Regulatory requirements

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

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

29. Financial instruments

i) Categories

	Held-to-maturity	Amortised cost	Loans and receivables	Available-for-sale	Fair value through profit and loss	Total
Assets						
2009						
Investments – insurance business				**734.2**		**734.2**
Trade and other receivables			**2 943.7**			**2 943.7**
Cash on hand and on deposit		**54.8**				**54.8**
2008						
Investments – insurance business				664.9		664.9
Trade and other receivables			2 615.6			2 615.6
Cash on hand and on deposit		66.8				66.8
Liabilities						
2009						
Trade payables		**84.8**				**84.8**
Borrowings		**737.0**				**737.0**
2008						
Trade payables		59.6				59.6
Borrowings		703.4				703.4

ii) Maturity profile

The maturity profiles of financial instruments at 31 March 2009 are as follows:

	0 – 12 months	2 – 5 years	>5 years	Total
Assets				
Available-for-sale insurance investments	**199.1**	**351.3**	**183.8**	**734.2**
Trade and other receivables*	**2 943.7**			**2 943.7**
Cash on hand and on deposit	**54.8**			**54.8**
Liabilities				
Borrowings	**(637.0)**	**(100.0)**		**(737.0)**
Trade payables	**(84.8)**			**(84.8)**
	2 475.8	**251.3**	**183.8**	**2 910.9**

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

29. **Financial instruments continued**

iii) **Fair value estimation**

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

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

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

30. **Capital risk management**

The group's objectives when managing capital are to:

– safeguard the group's ability to continue as a going concern
– provide returns for shareholders
– provide benefits for other stakeholders
– maintain an optimal capital structure as approved by the board.

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

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

During the 2009 financial year, the strategy was to maintain the gearing below 25%, which in the current credit conditions is considered to be prudent. The gearing rates at 31 March 2009 and 31 March 2008 were as follows:

	2009	2008
	Rm	Rm
Interest-bearing borrowings	**737.0**	703.4
Less: cash and cash equivalents	**(54.8)**	(66.8)
Net debt	**682.2**	636.6
Shareholders' equity	**2 939.9**	2 730.0
Gearing ratio	**23.2%**	23.3%
31. **Contingencies**		
Bank and other guarantees given by the group to third parties. The directors are of the opinion that no loss will be incurred on these guarantees.	**7.5**	8.1
32. **Capital commitments**		
Material capital commitments contracted for or authorised and contracted at the end of the year	**10.0**	35.0

company balance sheet

at 31 March 2009

	Notes	Company 2009 Rm	Company 2008 Rm
Assets			
Non-current assets			
Interest in subsidiaries	2	**2 796.4**	2 800.6
Current assets			
Deposits at bank		**0.3**	1.3
Total assets		**2 796.7**	2 801.9
Equity and liabilities			
Capital and reserves			
Share capital and premium	3	**2 711.6**	2 750.0
Retained earnings		**83.6**	50.3
		2 795.2	2 800.3
Current liabilities			
Trade and other payables		**1.5**	1.6
Total equity and liabilities		**2 796.7**	2 801.9

company income statement

for the year ended 31 March 2009

	Notes	Company 2009 Rm	Company 2008 Rm
Revenue	4	**354.5**	344.1
Operating costs	5	**(4.0)**	(4.4)
Profit before taxation		**350.5**	339.7
Taxation	6	**–**	–
Net profit attributable to ordinary shareholders		**350.5**	339.7

company statement of changes in equity

for the year ended 31 March 2009

	Company		
	Share capital and premium Rm	Retained earnings Rm	Total Rm
Balance as at 1 April 2007	2 800.0	3.4	2 803.4
Net profit attributable to ordinary shareholders	–	339.7	339.7
Shares cancelled	(50.0)	–	(50.0)
Dividends paid	–	(292.8)	(292.8)
Balance as at 31 March 2008	2 750.0	50.3	2 800.3
Net profit attributable to ordinary shareholders	**–**	**350.5**	**350.5**
Shares cancelled	**(38.4)**	**–**	**(38.4)**
Dividends paid	**–**	**(317.2)**	**(317.2)**
Balance as at 31 March 2009	**2 711.6**	**83.6**	**2 795.2**

company cash flow statement

for the year ended 31 March 2009

	Notes	Company	
		2009 Rm	2008 Rm
Cash flow from operating activities			
Cash generated from operations	7	**(4.1)**	(4.3)
Dividends and interest received		**354.5**	344.1
Cash retained from operating activities		**350.4**	339.8
Cash utilised in investing activities			
Loans to subsidiary companies		**4.2**	4.3
Net cash inflow from investing activities		**4.2**	4.3
Cash effects of financing activities			
Cost of own shares acquired		**(38.4)**	(50.0)
Dividends paid		**(317.2)**	(292.8)
Net cash outflow from financing activities		**(355.6)**	(342.8)
Net (decrease)/increase in cash and cash equivalents		**(1.0)**	1.3
Cash and cash equivalents at the beginning of the year		**1.3**	–
Cash and cash equivalents at the end of the year		**0.3**	1.3

notes to the company annual financial statements for the year ended 31 March 2009

	Company 2009 Rm	2008 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 65 to 72.		
2. Interest in subsidiaries		
Shares at cost	**2 800.0**	2 800.0
Indebtness	**(3.6)**	0.6
	2 796.4	2 800.6
3. Share capital and premium		
Authorised		
150,000,000 ordinary shares of 1c each	**1.5**	1.5
Issued		
98 057 959 (2008: 99 157 959) ordinary shares of 1c each	**1.0**	1.0
Share premium	**2 710.6**	2 749.0
Total share capital and premium	**2 711.6**	2 750.0
4. Revenue		
Dividends received from subsidiary	**354.4**	344.1
Interest received	**0.1**	–
	354.5	344.1
5. Operating profit	**R**	R
Stated after:		
Audit fees – current year	**50 000**	50 000
Other services	**15 000**	15 000
	65 000	65 000
6. Taxation	**Rm**	Rm
Taxation	**–**	–
	–	–
The rate of taxation on profit is reconciled as follows:		
Profit before taxation	**350.5**	339.7
Taxation calculated at a tax rate of 28% (2008: 29%)	**98.1**	98.5
(Exempt income)/Disallowed expenditure	**(98.1)**	(98.5)
Taxation per income statement	**–**	–
7. Cash generated from operations		
Profit before taxation	**350.5**	339.7
Dividends and interest received	**(354.5)**	(344.1)
(Decrease)/Increase in trade and other payables	**(0.1)**	0.1
	(4.1)	(4.3)

interest in subsidiary companies

for the year ended 31 March 2009

		2009		2008	
	Nature of business	Carrying value of subsidiaries Rm's	% Holding	Carrying value of subsidiaries Rm's	% Holding
Directly held					
Lewis Stores (Pty) Ltd	F	**2 800.0**	**100%**	2 800.0	100%
Indirectly held					
Incorporated in South Africa					
Monarch Insurance Co. Ltd	I		**100%**		100%
Lifestyle Living (Pty) Ltd	F		**100%**		100%
Kingtimm (Pty) Ltd	L		**100%**		100%
Incorporated in Botswana					
Lewis Stores (Botswana) (Pty) Ltd	F		**100%**		100%
Lewis Management Services (Botswana) (Pty) Ltd	M		**100%**		100%
Incorporated in Lesotho					
Lewis Stores (Lesotho) (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 Swaziland					
Lewis Stores (Swaziland) (Pty) Ltd	F		**100%**		100%
Cost of subsidiaries		**2 800.0**		2 800.0	
Amounts due by subsidiaries					
Lewis Stores (Pty) Ltd		**(3.6)**		0.6	
Interest in subsidiaries		**2 796.4**		2 800.6	

F Furniture dealer

I Insurance company

M Management services company

L Company holding property leases

shareholders' information

Shareholders' spread as at 31 March 2009:	No. of shareholders Total	%	Number of shares Total	%
1 – 1 000 shares	733	45.55	330 240	0.34
1 001 – 10 000 shares	547	34.00	1 985 393	2.02
10 001 – 100 000 shares	243	15.10	8 402 754	8.57
100 001 – 1 000 000 shares	73	4.54	21 170 502	21.59
1 000 001 shares and over	13	0.81	66 169 070	67.48
Total	1 609	100.00	98 057 959	100.00

Distribution of shareholders as at 31 March 2009:	% of holding
Public:	
Pension funds	27.12
Unit trusts/Mutual funds	25.22
Insurance companies	17.64
Other	18.92
Non-public:	
Lewis Stores (Pty) Ltd	9.40
Lewis Employee Incentive Scheme Trust	1.04
Directors of the company and those of its subsidiaries	0.66
	100.00
Major shareholdings as at 31 March 2009:	
Beneficial shareholders:	
Public Investment Corporation	19.25
Lewis Stores (Pty) Ltd	9.40
Metropolitan Life	5.85
Old Mutual Life Assurance	5.84
Sanlam	4.01
By Fund Manager:	
Public Investment Corporation	19.25
Old Mutual Investment Group	10.55
Franklin Resources	10.15
Metropolitan Asset Managers	7.55
Sanlam Investment Management	6.63
Geographical analysis of shareholders:	
Beneficial shareholders:	
South Africa	73.19
North America	16.31
United Kingdom	0.82
Europe	5.95
Rest of World	3.73
	100.00
By Fund Manager:	
South Africa	72.00
North America	16.94
United Kingdom	0.95
Europe	3.50
Rest of World	6.61
	100.00

shareholders' calendar

Financial year-end	31 March 2009
Final profit announcement	18 May 2009
Final dividend declared	18 May 2009
Annual report	30 June 2009
Last day to trade "cum" dividend	17 July 2009
Date trading commences "ex" dividend	20 July 2009
Record date	24 July 2009
Date of dividend payment	27 July 2009
Annual general meeting	14 August 2009
Interim profit announcement	9 November 2009

notice of annual general meeting

Lewis Group Limited

(Incorporated in the Republic of South Africa)
(Registration number: 2004/009817/06)
Share Code: LEW
ISIN: ZAE 000058236
("Lewis Group" or "the company")

Notice is hereby given that the fifth annual general meeting of shareholders ("AGM") of Lewis Group Limited for the year ended 31 March 2009 will be held at Lewis Group head office, 53A Victoria Road, Woodstock, Cape Town at 10:00 am on Friday, 14 August 2009. Registration will start at 9:15 am. The following business will be transacted and resolutions proposed, with or without modification:

1. **Ordinary resolution number 1**

   Approval of annual financial statements

   "Resolved that the audited annual financial statements of the company and its subsidiaries for the year ended 31 March 2009 accompanying this notice be accepted and approved."

2. **Ordinary resolution number 2**

   Election of directors

   Prof Fatima Abrahams and Mr David Morris Nurek retire in accordance with the company's articles of association. Prof Fatima Abrahams and Mr David Morris Nurek offer themselves for re-election.

   Prof Fatima Abrahams [age 46]
   David Morris Nurek [age 59]

   Brief CVs of the directors are on page 11.

   Appointment of Fatima Abrahams as director

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

   Appointment of David Morris Nurek as director

2.2 "Resolved that David Morris Nurek 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 2009

   "Resolved that the remuneration of the directors for the year ended 31 March 2009 as reflected on page 85 to page 87 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 2010

   "Resolved that the fees of the directors as reflected below be approved for the year to 31 March 2010:

Chairman	R383 000
Director	R179 000

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

Chairman	R189 000
Member	R 77 000

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

Chairman	R77 000
Member	R39 000

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

Chairman	R77 000
Member	R39 000

5. **Ordinary resolution number 5**

   Approval of reappointment of auditors

   "Resolved that PricewaterhouseCoopers Inc be and are hereby reappointed as auditors of the company for the ensuing year and to appoint Mr Zuhdi Abrahams as the designated auditor for the ensuing year.."

6. **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."

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

   General instructions and information

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

   - the directors and managers of the company on pages 11, 18 and 19;
   - the major shareholders of the company on page 108;
   - the directors' shareholding in the company on pages 58 and 108; and

- the share capital of the company in note 7 on page 75 and an analysis of the shareholders on page 108.

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 2009 and the reporting date.

The directors, whose names are given on page 11 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 contain 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 Security Depository Participant ("CSDP") to hold your shares in your own name in the company sub-register) then:

- you may attend and vote at the annual general meeting; alternatively
- you may appoint a proxy to represent you at the annual general meeting by completing the attached form of proxy and returning it to the company's Transfer Secretary (Computershare Investor Services (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 (P O Box 61051, Marshalltown, 2017)) or lodging it at the registered office of the company by no later than 24 hours prior to the time appointed for the holding of the meeting.

Please note that if you are the owner of dematerialised shares (i.e. have replaced the paper share certificates representing the shares with electronic records of ownership under the JSE's electronic settlement system, Share Transactions Totally Electronic ("STRATE")) held through a CSDP or broker (or their nominee) and are not registered as an "own name dematerialised shareholder" then you are not a registered shareholder of the company, your CSDP or broker (or their nominee) would be. Accordingly, in these circumstances, subject to the mandate between yourself and your CSDP or broker as the case may be:

- if you wish to attend the annual general meeting you must contact your CSDP or broker, as the case may be, and obtain the relevant letter of representation from it; alternatively
- if you are unable to attend the annual general meeting but wish to be represented at the meeting, you must contact your CSDP or broker, as the case may be, and furnish it with your voting instructions in respect of the annual general meeting and/or request it to appoint a proxy. You must not complete the attached form of proxy. The instructions must be provided in accordance with the mandate between yourself and your CSDP or broker, as the case may be, within the time period required by your CSDP or broker, as the case may be.
- CSDPs, brokers or their nominees, as the case may be, recorded in the company's sub-register as holders of dematerialised shares held on behalf of an investor/beneficial owner in terms of STRATE should, when authorised in terms of their mandate or instructed to do so by the owner on behalf of whom they hold dematerialised shares in the company, vote by either appointing a duly authorised representative to attend and vote at the annual general meeting or by completing the attached form of proxy in accordance with the instructions thereon and returning it to the company's Transfer Secretary (Computershare Investor Services (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 (P O Box 61051, Marshalltown, 2017)) or lodging it at the registered office of the company not less than 24 hours prior to the time appointed for the holding of the meeting.

By order of the Board

M G McConnell
Company secretary

18 May 2009

notes

form of proxy

Lewis Group Limited
(Incorporated in the Republic of South Africa)
(Registration Number: 2004/009817/06)
Share Code: LEW ISIN: ZAE 000058236
("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, 14 August 2009 ('the annual general meeting").

Not to be used by beneficial holders of shares who have dematerialised their shares ("dematerialised shares") through a Central Securities Depository Participant ("CSDP") or broker, as the case may be, unless you are recorded on the sub-register as an "own name" dematerialised shareholder ("own name dematerialised shareholder"). Generally, you will not be an own name dematerialised shareholder unless you have specifically requested the CSDP to record you as the holder of the shares in your own name in the company's sub-register.

Only for use by certificated, own name dematerialised shareholders and CSDPs or brokers (or their nominees) registered in the company's sub-register as the holder of dematerialised ordinary shares.

Each shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies (none of whom need be a shareholder of the company) to attend, speak and vote in place of that member at the annual general meeting, and at any adjournment thereafter.

I/We (block letters), ____

Of (address) ____

Telephone: (Work)__________________________ Telephone: (Home)__________________________

Being the holder/s of ___________________ ordinary shares in the company, hereby appoint (see instruction overleaf)

1.____or failing him/her

2.____or failing him/her

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

	Insert an "X"		
	In favour of	Against	Abstain
Ordinary resolution 1 Approval of annual financial statements			
Ordinary resolution 2.1 Election of Prof Fatima Abrahams as director			
Ordinary resolution 2.2 Election of Mr David Morris Nurek as director			
Ordinary resolution number 3 Approval of directors' remuneration for the year ended 31 March 2009			
Ordinary resolution number 4 Approval of directors' fees for the year to 31 March 2010			
Ordinary resolution number 5 Approval of reappointment of auditors			
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 (instruction overleaf).

Signed at______________________________________on______________________2009

Signature/s____
(Authority of signatory to be attached if applicable – see instruction overleaf)

Assisted by____
(where applicable)

Telephone number: ____________________________
Please read the notes on reverse side.

form of proxy *continued*

Instructions on signing and lodging the proxy form:

1. A certificated or own name dematerialised shareholder or CSDP or broker registered in the company's sub-register may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space/s provided, with or without deleting "the chairman of the annual general meeting", but any such deletion must be initialled by the shareholder. The person whose name stands first on the proxy form and who is present at the annual general meeting will be entitled to act as a proxy to the exclusion of those whose names follow thereafter. If no proxy is inserted in the spaces provided, then the chairperson shall be deemed to be appointed as the proxy to vote or abstain as the chairperson deems fit.

2. A shareholder's voting instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that shareholder in the appropriate box provided. If there is no clear indication as to the voting instructions to the proxy, the proxy will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of all the shareholder's votes exercisable thereat. A shareholder or his/her proxy is not obliged to use all the votes exercisable by the shareholder or by his/her proxy, but the total of the votes cast and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the shareholder or by his/her proxy.

3. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.

4. To be valid the completed proxy forms must be forwarded to reach the company's Transfer Secretaries, Computershare Investor Services (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 (P O Box 61051, Marshalltown, 2017), or lodged with the company secretary to be received by no later than 10:00 on Thursday, 13 August 2009.

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 companys secretary together with this form of proxy.

6. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders, for which purpose seniority will be determined by the order in which the names appear on the register of shareholders in respect of the joint holding.

7. The completion and lodging of this proxy form shall not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms thereof, should such member wish to do so.

8. The completion of any blank spaces overleaf need to be initialled. Any alterations or corrections to this proxy form must be initialled by the signatory/ies but may not be accepted by the chairperson.

9. The chairman of the annual general meeting may in his absolute discretion reject or accept any proxy form which is completed other than in accordance with these notes.

10 If required, additional forms of proxy are available from the secretary of the company.

11 Shareholders which are a company or body corporate may by resolution of their directors, or other governing body, authorise any person to act as their representative.

   The representative will be counted in the quorum and will be entitled to vote on a show of hands or on a poll.

Registered number
2004/009817/06

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

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