Lewis Group Limited
INTEGRATED ANNUAL REPORT 2013

Group Ltd

CONTENTS

HIGHLIGHTS AND ACHIEVEMENTS

REVENUE UP

6.8%

GROSS PROFIT MARGIN

38.3%

DEBTOR COSTS UP

3.3%

OPERATING PROFIT MARGIN

24.0%

HEADLINE EARNINGS PER SHARE UP

13.6%

TOTAL DIVIDEND UP

16.3%

- Level 4 BEE status maintained
- Qualified for JSE Socially Responsible Investment Index for the second year

INTRODUCING THE REPORT

Lewis Group has pleasure in presenting its Integrated Annual Report to stakeholders for the 2013 financial year. This report builds on the enhanced disclosure of the group's first two integrated annual reports and has again been prepared in line with best practice based on the principles of King III.

The directors are committed to providing shareholders with accurate, balanced and transparent reporting, and to offer greater insight into the group's sustainability and prospects.

Scope and boundaries of the report

This report covers the integrated sustainability performance and activities of Lewis Group ("the group") which includes the main operating company of the group, Lewis Stores (Proprietary) Limited, and all its subsidiaries for the period 1 April 2012 to 31 March 2013. The companies operate in South Africa, Namibia, Botswana, Swaziland and Lesotho, with 87% of the group's revenue being generated in South Africa. There has been no change from last year in the scope and boundary of the report. Management's interpretation of materiality has been applied in determining the financial and non-financial content and disclosure.

The report is focused primarily on shareholders and the investment community, with a secondary focus on other stakeholder groups including customers, employees, industry regulators and suppliers.

The reporting complies with International Financial Reporting Standards (IFRS), the Companies Act and the JSE Listings Requirements, while management has also considered the reporting guidelines of the Integrated Reporting Committee of SA.

The group has again published abridged financial statements in this Integrated Annual Report. The comprehensive audited annual financial statements are available to shareholders on the Lewis Group website, www.lewisgroup.co.za and by request from the company secretary.

Independent assurance

Assurance of the annual financial statements and the abridged financial statements has been provided by the external auditor, PricewaterhouseCoopers. The group's Broad-Based Black Economic Empowerment (B-BBEE) scorecard has been verified by accredited rating agency, AQRate, while the group's carbon emissions and environmental impact has been measured by sustainability consultancy, The Green House.

Forward-looking statements

The Integrated Annual Report includes forward-looking statements relating to the financial position and results of the group's operations. These are not statements of fact but rather statements by the group based on current estimates and expectations of future performance. No assurance can be given that forward-looking statements will prove to be correct and stakeholders are cautioned not to place undue reliance on these statements.

Factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, global and national economic conditions, the cyclical nature of the retail sector, changes in interest rates, credit and the associated risk of lending, collections, inventory levels, gross and operating margins, capital management, the execution of the business model, and competitive and regulatory factors.

Lewis Group undertakes no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information or future events or otherwise. The forward-looking statements have not been reviewed or reported on by the group's independent auditor.

Approval of the Integrated Annual Report

The Audit Committee has oversight for integrated annual reporting and for the preparation of the Integrated Annual Report. The committee confirms that the report fairly represents the integrated performance of the group and recommended the report for approval by the board of directors. The board accordingly approved the Integrated Annual Report for release to stakeholders on 20 May 2013.

CREATING VALUE FOR OUR STAKEHOLDERS

GROUP PROFILE

Lewis Group is a leading credit retailer of household furniture and electrical appliances which are sold through three trading brands, Lewis, Best Home and Electric, and My Home.

Listed in the General Retailers sector on the JSE Limited since 2004, the group has 619 stores across all metropolitan areas and a strong presence in rural South Africa. There are 59 stores located in the neighbouring southern African countries of Botswana, Lesotho, Namibia and Swaziland.

Lewis is the country's largest furniture chain with 477 stores and is one of the most recognisable brands in furniture retailing.

Monarch Insurance, the group's short-term insurance subsidiary, provides insurance cover to customers purchasing merchandise on credit.

Targeted customer profile

Focused on the expanding middle to lower income market in the Living Standards Measurement (LSM) 4 to 7 categories, the group has a credit customer base of close to 700 000.

Lewis Group is committed to service excellence and offering quality, exclusive merchandise. High levels of repeat sales to existing customers are evidence of service satisfaction, trust and customer loyalty. As part of the commitment to service excellence, Lewis strives to be an integral part of the community it serves. Shoppers are served by staff from their own communities, with stores being located close to the places where Lewis customers live, work, shop and commute.

Eight decades of growth

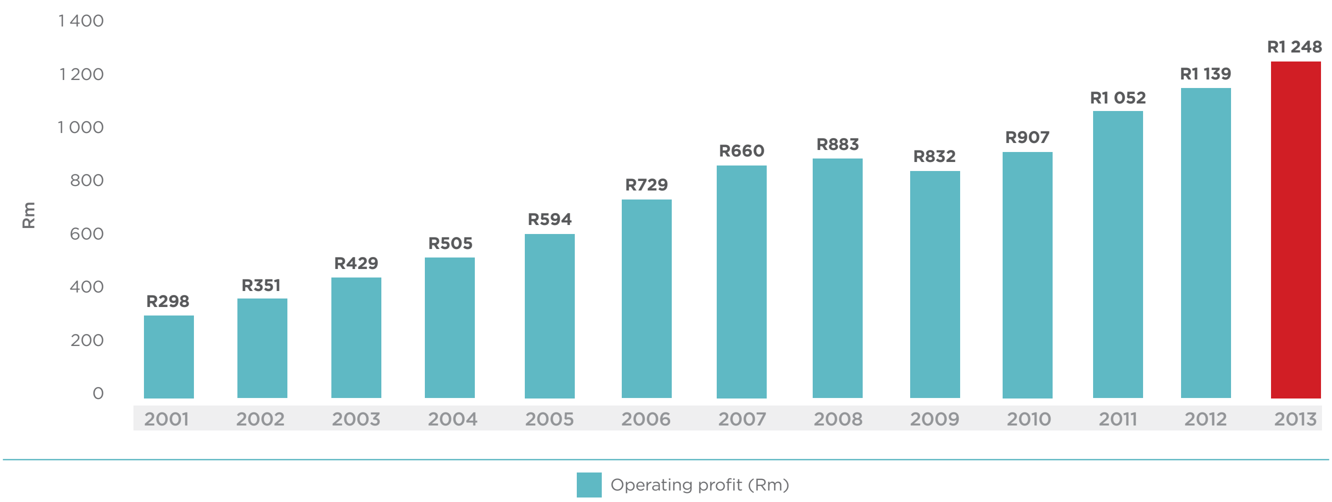
The group's history dates back to 1934 when entrepreneur Meyer Lewis bought Woodstock Auction Mart in Cape Town. The business changed its name to M Lewis and Company a few years later and new furniture was introduced into its offering. The UK-based retailer, GUS plc, acquired a controlling interest in Lewis Stores in 1947.

The business expanded nationally through the 1950s and started opening stores in Botswana, Lesotho, Namibia and Swaziland from the late 1960s. Trade predominantly took place under the Lewis and Dan Hands brands before Dan Hands was re-branded to Lewis in 1997. Ongoing organic growth saw the store base reach 500 in 2007.

Monarch Insurance was established in 1994 and four years later Best Electric was launched to sell branded electrical merchandise. Best Electric was re-branded Best Home and Electric in 2008 and the product range expanded to include furniture lines.

Further detail on the group's history is available on the website, www.lewisgroup.co.za.

Operating profit history - compound annual growth of 12.7% since 2001



Our values

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

Our pledge

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

BUSINESS MODEL

Lewis Group operates a decentralised, store-based business model which has ensured sustainable performance through all market conditions. The foundation of the model has evolved over many years and is consistently applied throughout the business.

The model is based on the principle that the sale of furniture and the granting of credit are interdependent.

The business model is well suited to the group's lower to middle income target market where customers are reliant on credit to buy products.

All aspects of the customer relationship are managed by the staff in the stores, except for the granting of credit which is managed centrally to ensure consistent decision-making and prudent credit risk management.

The personal and relationship-based interaction with customers in the stores creates trust and confidence while also generating high levels of loyalty and repeat sales.

CUSTOMER RELATIONSHIPS MANAGED BY STORES

STORE

Stores are accountable for all aspects of the customer relationship.

Merchandise sales and credit applications

Furniture and appliances are sold mainly on credit.
Credit applications are completed electronically by stores and submitted to head office.
Insurance is an optional offer on credit purchases.
Store staff are commission-based and incentivised on sales targets.

Strong relationships are developed with customers over the life time of a contract.

Collections

Stores are responsible for cash collection and follow-up of defaulting customers.
Interaction with customers visiting stores monthly to pay accounts creates opportunities for repeat sales.
Store locations make it convenient for customers to pay at stores.
Collection staff make house calls on defaulting accounts.
Collection staff are incentivised on collections and satisfactory paid targets.

Stores are located close to where Lewis customers work, shop, live and commute.

Customer re-serve programme

High level of sales to existing customers through the re-serve programme.
Re-serve programme identifies existing customers for further credit, based on payment history.
Targeted mailings and promotional offers aimed at these customers.
In-store promotions are a major marketing tool.

Customers are serviced by staff from their own communities in their own language.

Supply chain and delivery to customers

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

CENTRALISED CREDIT ASSESSMENT AND APPROVAL

HEAD OFFICE

Credit is granted centrally to ensure credit risk policies are consistently applied, removing any subjectivity in the credit granting process.

Credit application and granting

Credit applications are submitted electronically to head office from stores.
Industry-leading technology used to determine creditworthiness of a customer.
Advanced application and behavioural risk scorecards are applied.
Credit policies determine creditworthiness, term and deposit required from customer.
Decisions on credit applications relayed to stores within an average of nine seconds.
Refer to credit report on page 46.

STRATEGY

Lewis Group's strategy of offering exclusive merchandise on credit to the lower to middle income market through a network of stores countrywide is aimed at generating sustainable growth in shareholder value.

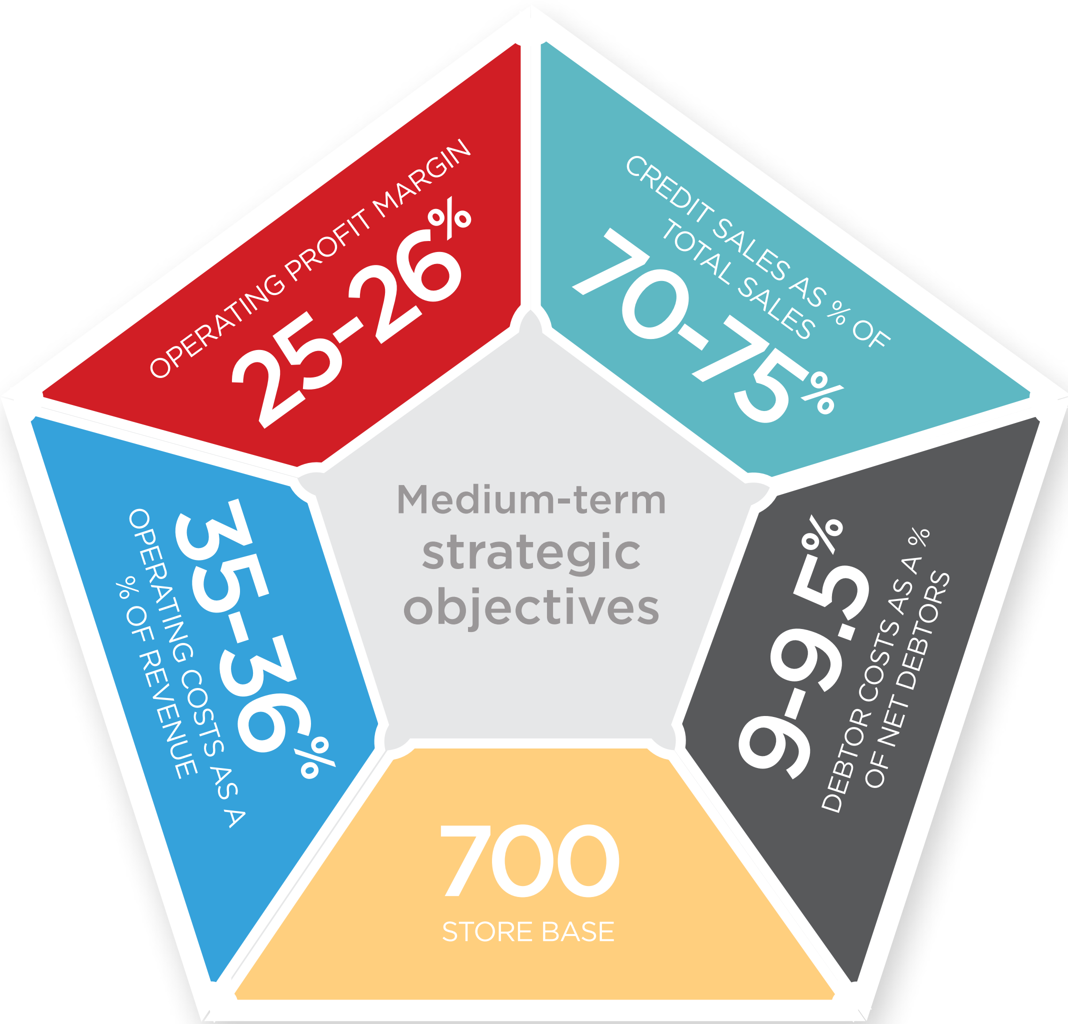
The strategy is reviewed and considered annually by the board and executive management, together with progress against the published medium-term strategic objectives.

Material issues and risks that could impact on the group's strategy, its stakeholders and its ability to sustain growth are reviewed on a continuous basis as part of the strategic planning process.

Action plans are developed to achieve the strategic objectives and also to manage the material impacts on the group.

In reviewing the material impacts for the year ahead, the impact of changes to the regulatory environment was identified as a matter which could have an impact on the business in the short to medium term.

MEDIUM-TERM STRATEGIC OBJECTIVES



MATERIAL IMPACTS ON THE BUSINESS

MATERIAL IMPACT	PERFORMANCE INDICATORS	ACHIEVED	TARGETS		
		2013	2013	2014	Medium-term
Merchandising and supply chain	Gross profit margin (%)	**38.3**	**36 -38**	37.5 – 38.5	37.5 – 38.5
	Inventory turn (times)	**5**	**5 – 5.5**	5 – 5.5	5 – 5.5
Credit management	Debtor costs as a percentage of net debtors	**9.4**	**9.5 – 10.5**	9.5 – 10.5	9 – 9.5
	Satisfactory paid customers (%)	**69.4**	**73 - 75**	70 - 72	72
Execution of business model	Operating profit margin (%)	**24**	**23 – 24**	23.5 – 24.5	25 - 26
	New store openings	**24**	**20 – 25**	20 – 25	20 – 25
	Credit sales as a percentage of total sales	**75.3**	**70 – 72**	70 – 75	70 – 75
	Operating costs as a percentage of revenue (excluding debtor costs)	**36.2**	**36 - 37**	36 – 37	35 – 36
Capital management	Gearing (%)	**29.9**	**28 – 32**	32 - 34	< 35
	Dividend payout ratio (%)	**55.5**	**50 - 55**	50 – 55	50 – 55
Human capital management	Skills development: staff trained annually	**7 546**	**> 3 000**	> 3 000	> 3 500
	B-BBEE level contributor	**4**	**5**	4	4
Regulatory environment	The board is responsible to oversee legislative, regulatory and governance compliance				
Information technology (IT)	The IT Steering Committee reports to the Risk Committee and manages IT performance on projects and IT controls				

MERCHANDISING & SUPPLY CHAIN

Strategic objective

Maintain competitive advantage and targeted margin by sourcing exclusive, quality merchandise both locally and offshore

Key risks

Suppliers and distribution partners performing below standard

- Lack of depth in supplier base
- Exchange rate fluctuations

Management action plans

- Develop new products and offers for regular launches
- Ensure reliable back-up supplier channel
- Further improve supply chain efficiency through system enhancements
- Increase exclusive appliance brands
- Continue to invest in enterprise development with local suppliers
- Reduce lead times in the merchandising cycle
- Manage inventory turn within targeted range
- Purchase forward cover to hedge against risk of foreign currency fluctuations

42 Refer to merchandise and brands report

CREDIT MANAGEMENT

Strategic objective

Optimise the quality of the debtors' book by reducing debtor costs through improved collections and continuous updating of scorecards.

Key risks

Inability to maintain optimal quality of debtors' book owing to high levels of unemployment, labour unrest, aggressive unsecured lending in the market and the overall challenging economic environment

Management action plans

Ongoing focus on collections productivity and efficiency

- Customer segmentation and credit limit strategies
- Reward best rated credit customers
- Focus on increasing satisfactory paying customers

46 Refer to credit report

EXECUTION OF BUSINESS MODEL

Strategic objective

Effective execution of the decentralised customer focused business model

Key risks

Poor execution of the strategies and procedures of the business model by management

- Insufficient experienced operational staff
- Unsecured lending
- Regulatory environment

Management action plans

- Focus on re-serve programme and local promotions
- Offering exclusive value for money merchandise
- Provide quality customer service
- Focus on stable store management through training, recruitment and selection strategies
- Expanding store footprint, focusing on smaller stores with electronic catalogue
- New customer acquisition initiatives
- Monitoring competitor activity
- Engagement with various regulators

6 Refer to business model

CAPITAL MANAGEMENT

Strategic objective

Efficient management of financial risks and the liquidity requirements of the business

Key risks

Inefficient capital management could impact on profitability and returns to shareholders

- Share market underperformances

Management action plans

- Ensure access to capital at all times
- Efficient allocation of capital
- Invest in the organic growth of the business
- Return funds to shareholders through dividend payments
- Manage investment portfolio together with financial advisors to optimise returns
- Manage currency exposure and risk

32 Refer to chief financial officer's report

HUMAN CAPITAL MANAGEMENT

Strategic objective

Ongoing development of staff for management positions; retention of current management and attract competent individuals as required

Key risks

Inability to attract, develop and retain suitable staff for executive and operational management positions.

Management action plans

- Training and development programmes
- Remuneration retention schemes
- Focused recruitment and selection practices
- Implement a formal talent management function
- Transformation through black economic empowerment

50 66 Refer to remuneration report, and social, ethics and transformation report

REGULATORY ENVIRONMENT

Strategic objective

Ensure compliance with relevant legislation and regulation, and limit impact of legislative changes on margins and profitability

Key risks

Sanctions for regulatory non-compliance
Changes in legislation and regulations could adversely affect margins and profitability

Management action plans

- Monitor existing compliance, proposed legislation and identify potential impacts on the business
- Engage with regulators on draft legislation and regulations
- Formal submissions to regulators in response to proposed changes in legislation
- Ensure business is operating efficiently to maintain margins and profitability
- Identify alternate sources of revenue should legislative changes impact sales and profitability

22 56 Refer to chairman's report and corporate governance report

INFORMATION TECHNOLOGY

Strategic objective

Develop and maintain industry-leading information systems

Key risks

- Availability of main operating systems
- Outdated software solutions
- Security of data due to exposure of systems to mobile devices and various interfacing systems

Management action plans

- Monitor IT governance processes across the business through the IT Steering Committee
- Regular review and implementation of hardware and software solutions to improve productivity and assist management in achieving strategic objectives
- Develop and implement Information Security Management System (ISMS)

56 Refer to corporate governance report

ENGAGING WITH STAKEHOLDERS

Stakeholder engagement is central to the group's economic, social and environmental sustainability. Engagement aimed at establishing and maintaining mutually beneficial relationships not only limits risks to the business but creates opportunities to enhance revenue and performance, and ultimately ensures longer-term sustainability.

Lewis Group focuses primarily on stakeholders which are likely to have a material effect on sustainability. The group has identified the following primary stakeholders who have an interest in the business or who could influence the business in a positive or negative manner:

- **Customers** across the three trading brands
- **Shareholders** and the broader investment community
- **Employees** throughout the group
- **Suppliers** of merchandise and services
- **Communities** in which the group operates
- **Industry regulators**

Our mission

Our mission is to significantly improve the quality of life of all who are involved with us. We do this in the following ways:

- We have conveniently placed stores countrywide and in neighbouring countries providing affordable, good quality products to **customers** who aspire to an improved lifestyle.
- We provide opportunities for fulfilling career paths in the furniture retail trade. With guidance and training we strive to develop our **employees** to their full potential.
- Our **employees** are motivated through performance-based incentives.
- We also encourage a culture of "ownership" for example, branch managers are encouraged to run their branches as if they were their own, under the umbrella of the policies and procedures of the company.
- By conducting business in an honest and caring manner with excellent customer service a priority, we are recognised in the communities.

STAKEHOLDER	RATIONALE FOR ENGAGING	MEANS OF ENGAGING	ISSUES OF ENGAGEMENT
Customers	– Customer loyalty and retention – Brand and product awareness – Sustainable revenue stream to generate returns to shareholders	– Customer contact in stores – Media advertising – In-store promotions – Market research	– High levels of customer retention – Improved credit offerings – Improved service levels
Shareholders	– Ensure access to capital by attracting investors – Provide relevant and timeous information – Balanced analysis of the company	– Interim and annual results presentations – Integrated annual report – Investor website – Shareholder meetings – SENS announcements – Broker conferences – Meetings with local and international investors and analysts	– Strategy – Regulation – Trading environment – Performance – Credit management – Store expansion – Capital management – Prospects
Employees	– Attract and retain talent – Employee motivation – Increase productivity – Engender loyalty	– Regular communication through electronic media – Monthly in-store review meetings – Regular meetings with unions – Induction and training courses	– Highly trained and skilled staff – Performance-linked incentives and awards – Reduced staff turnover – Employment equity
Suppliers	– Securing reliable and sustainable supply of goods and services – Consistent quality of exclusive merchandise	– Regular supplier meetings – Factory visits – Supplier audits – Service level agreements	– Quality standards – Product availability – Product exclusivity – Pricing – Delivery lead times
Communities	– Responsible corporate citizen	– Community investment and upliftment through CSI programme and local support through stores	– Continued investment in CSI programme – Store and staff involvement in CSI projects
Regulatory bodies	– Legislative and regulatory compliance – Sound governance	– Statutory reporting – Regulatory submissions – Liaison with regulators – Membership of industry bodies and forums	– Insight into regulatory changes – Submissions to draft regulation – Compliance – Statutory reporting and returns

INVESTMENT CASE

Lewis Group has a clear strategic focus, proven business model and has positioned itself in a potential growth segment of the South African consumer market. While the current economic cycle is challenging for the domestic retail sector, the group believes the following factors should ensure sustainable, long-term returns to investors and benefit all stakeholders.

CLEAR STRATEGIC FOCUS

- Focused on core business of furniture retailing
- Primary focus on LSM 4 – 7 groups
- Operating in a target market which benefits from fiscal stimulus

4 Group profile

8 Strategy

42 Merchandise and brands

ROBUST BUSINESS MODEL

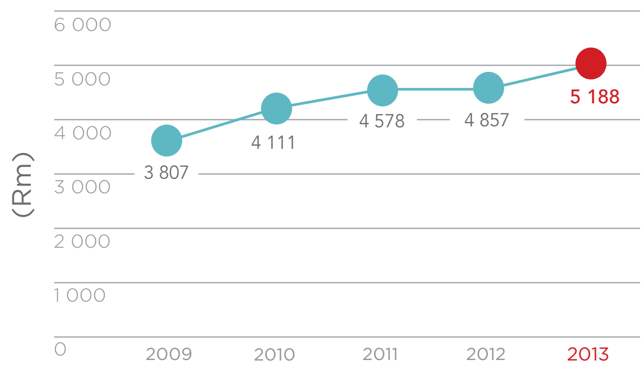
- Credit offered across all brands to facilitate sales growth
- Integrated credit and marketing strategies
- Centralised credit approval and granting process
- Decentralised cash collection process
- Centralised administration and support processes

6 Business model

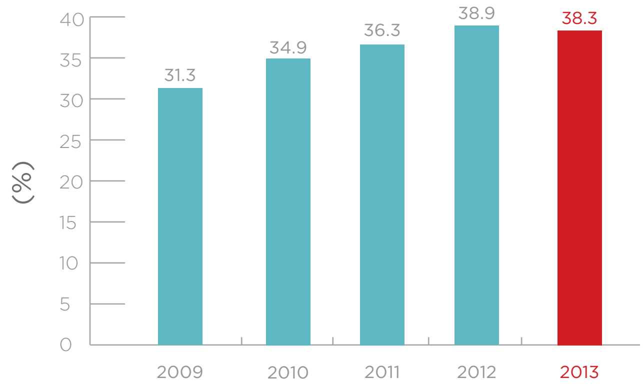
42 Merchandise and brands

46 Credit report

Revenue



Gross margin



PROVEN CREDIT RISK MANAGEMENT

- Extensive knowledge of credit risk management in lower to middle income market
- Advanced application and behavioural risk scorecards
- High proportion of credit business: 75.3% in 2013
- Opportunity to offer insurance to credit customers

46 Credit report

DIFFERENTIATED AND EXCLUSIVE MERCHANDISE RANGES

- Innovative sourcing both locally and offshore to ensure exclusive ranges appeal to credit customers
- Customers attracted into stores by value-for-money product offer
- Sell differentiated, exclusive and quality merchandise ranges
- Focus on selling higher margin furniture and appliance product categories
- Products sourced to meet needs of the lower to middle income market

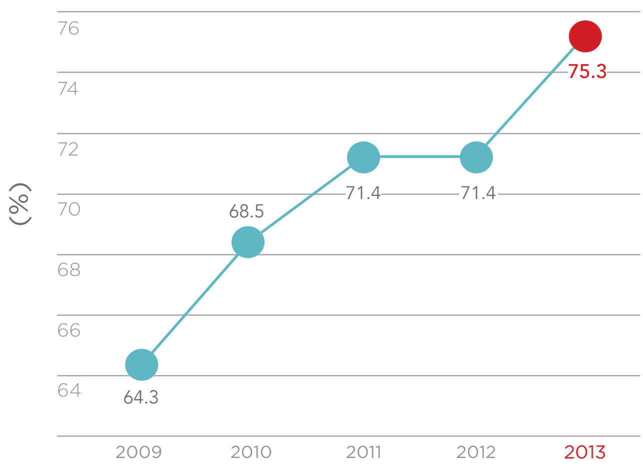
42 Merchandise and brands

GROWING STORE PRESENCE

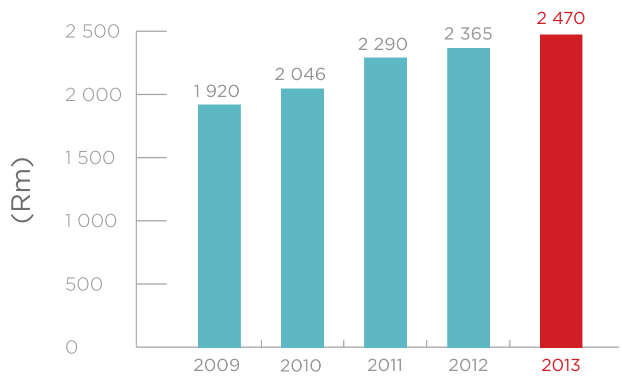
- 619 stores across metropolitan and rural areas
- 10% of stores based outside of South Africa
- Stores conveniently located for the target market
- Plan to expand store base to 700 in the medium term

48 Store footprint

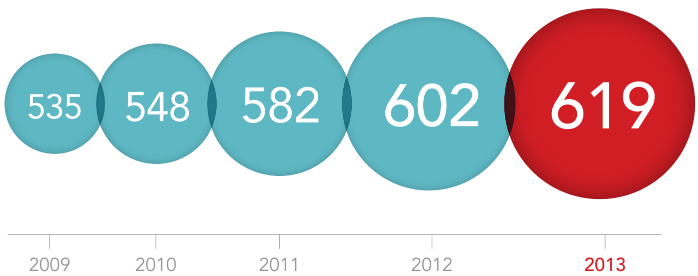
Credit sales % of merchandise sales



Merchandise sales



Number of stores



STRONG BRAND AND CUSTOMER LOYALTY

- 55% of credit sales from existing customers through re-serve programme
- Lewis is the single largest furniture brand in South Africa
- High levels of brand awareness and customer preference

6 Business model

42 Merchandise and brands

SUSTAINED FINANCIAL PERFORMANCE

- Consistently high operating margins throughout the economic cycles
- 13% p.a compound growth in operating profit since listing in 2004
- High dividend payout ratio
- Low cost structure and internal culture of cost consciousness

32 Chief financial officer's report

35 Five-year review

EXPERIENCED MANAGEMENT TEAM

- Strong blend of company and industry experience
- Stable long-serving executive management team
- Culture of promoting from within

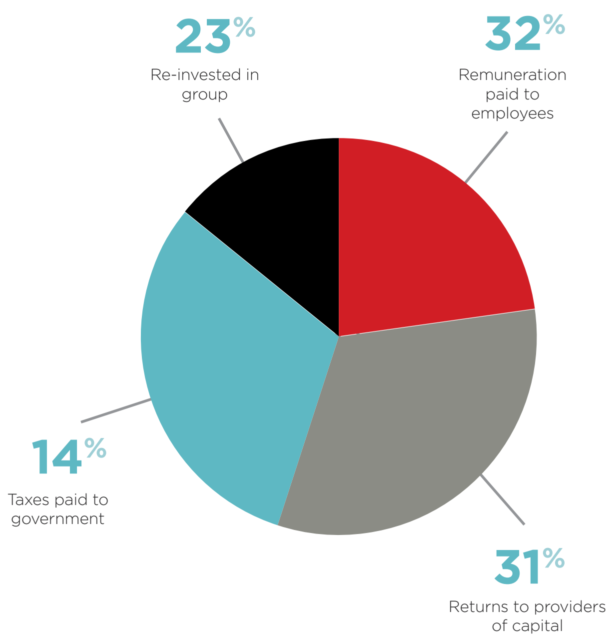
30 Operating board of Lewis Stores

VALUE-ADDED STATEMENT for the year ended 31 March 2013

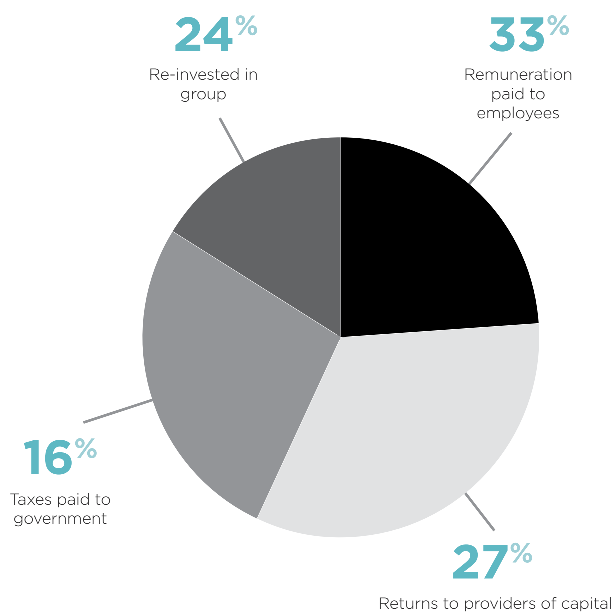
	GROUP			
	2013 Rm	%	2012 Rm	%
Revenue	5 187.6		4 857.3	
Paid to suppliers for goods and services	2 739.5		2 618.6	
Value added by operating activities	**2 448.1**		2 238.7	
Distributed as follows:				
Remuneration to employees	792.0	32.4%	732.9	32.8%
Returns to providers of capital:	760.4	31.1%	619.7	27.7%
To provide lenders with a return on their capital utilised	105.2		82.2	
To provide lessors with a return for the use of their premises	227.1		202.0	
To provide shareholders with a return on their equity	428.1		335.5	
Taxes paid to governments	343.0	14.0%	354.6	15.8%
Income taxation	337.4		349.3	
Municipal rates	5.6		5.3	
Re-invested in the group	552.7	22.6%	531.5	23.7%
Depreciation and amortisation	55.1		48.5	
Deferred taxation	18.3		17.9	
Net earnings retained	479.3		465.1	
Total wealth distributed	2 448.1	100.0%	2 238.7	100.0%

Distribution of value added

2013



2012



LEADERSHIP AND PERFORMANCE

CHAIRMAN'S REPORT

"The group qualified for inclusion in the JSE Socially Responsible Investment Index for the second successive year, acknowledging our success in incorporating sustainability practices into the business."

Introduction

It is pleasing to report to stakeholders that the Lewis Group has achieved or exceeded all the financial and operating targets set for the 2013 financial year.

Steady progress has also been made in achieving the group's medium-term strategic objectives for operating margin, cost containment, debtor management and store expansion.

Challenging trading conditions

Consumer sentiment continued to decline during the year and is currently at its lowest level since 2004, with the composite consumer confidence index measuring -7. This declining trend is evident across all income, population, age and gender groups. Confidence levels among lower middle income consumers – the Lewis target market – have continued their steady decline of the past three years, having fallen from +16 in the first quarter of 2010 to +3 by 2012 and are now at -8 in 2013.

As there is a close correlation between consumer spending and consumer confidence, the recent trend is not indicative of any material recovery in retail spending in the near future.

The domestic economy was also impacted by widespread industrial strike action during the reporting period. This negatively impacted retail sales and also affected the ability of many credit customers to meet their repayment obligations.

The ratio of household debt to disposable income in South Africa remains at a high level of 75.8%. While this debt ratio is understandably lower in the Lewis target market - as customers have limited exposure to asset-based finance and few customers own homes - debt levels in our market have increased from 45.8% to 47.2%, evidence of the pressure from higher transport, food and electricity costs. It is concerning that many lower income earners are funding household expenditure through unsecured lending.

Resilient financial performance

In these adverse retail trading conditions Lewis Group has posted a resilient performance. Revenue increased by 6.8% to R5.2 billion with merchandise sales 4.4% higher at R2.5 billion.

Tight control of operating expenses and debtor costs, together with higher credit sales, lifted the group's operating profit margin by 50 basis points to 24.0%. This contributed to an increase of 13.6% in headline earnings per share.

A final dividend of 302 cents per share has been declared, bringing the total dividend for the period to 514 cents, an increase of 16.3% over the previous year. This equates to a dividend payout ratio of 55.5%. The company has once again covered the impact of the dividend withholding tax of 15% on behalf of shareholders.

The group's trading and financial performance is covered in more detail in the chief executive officer's report on page 26 and in the chief financial officer's report on page 32.

Regulatory environment

A task team comprising the National Credit Regulator, the Financial Services Board and National Treasury has been established to investigate the credit insurance industry. Lewis is hopeful that positive engagement with the regulators will bring about a speedy resolution to the current uncertainty in the market.

However, we believe any investigation into the South African credit market needs to be expanded to evaluate the total cost of credit, rather than focusing on insurance which is only one element of the cost of credit.

This should include the impact of the duration of credit contracts, the total amount payable in interest over the lifetime of a contract, affordability levels and reckless credit granting practices.

While the rate of growth in unsecured lending has slowed in the past year, an area of concern is the length of instalment terms and also the growth in loan sizes. This has been compounded by the marketing of debt consolidation products which enable cash strapped customers to consolidate multiple debts into one single large loan. The loan is purportedly made more affordable by extending the repayment over periods as long as seven years. However, the extension of the repayment period has a significant impact on the total amount payable over the contract period and impacts negatively on the customer's ability to gain access to any further credit.

We would welcome any regulatory intervention aimed at capping activity in the unsecured lending market which would lead to a slowdown in credit granting and to consumers being locked into contracts for unreasonable periods of time.

Material sustainability risks

As a board we assess on an ongoing basis the material issues and risks that could impact on the group's strategy and on our ability to sustain growth. These include operational and strategic risks, as well as risks posed by the external environment.

In reviewing the material impacts for the 2014 financial year, the directors have identified the regulatory environment as a heightened risk which could impact on the business in the short-to medium-term. The regulatory threat relates mainly to the credit insurance issue discussed above.

The group is committed to engaging with industry regulators and making formal submissions in response to proposed changes in legislation. Management identifies the potential impact of legislation and regulation on the business and aims to limit the effect of any changes on margins and profitability. As a means of mitigating regulatory risk, alternate sources of revenue are identified should legislative changes impact sales and margins, and we need to ensure the business is operating efficiently to maintain profitability.

These material issues are outlined in the Strategy Report on page 8, together with the key risks and plans to mitigate their impact on our business.

We are pleased to report that the group qualified for inclusion in the JSE Socially Responsible Investment (SRI) Index for the second successive year, acknowledging our success in incorporating sustainability practices into the business. The SRI Index is recognised as the benchmark of sustainability in South Africa where qualification is based on an independent evaluation of environmental, social, governance and sustainability practices.

Appreciation

The group has produced a pleasing performance in the current environment and more particularly in relation to its competitors. On behalf of the board, I thank the management team under the able leadership of Johan Enslin for their commitment and dedication. Thank you to our team of over 7 000 people at our stores and at head office for your contribution. I also thank my fellow non-executive directors for their support and willingness to share the benefit of their experience.

Thank you also to our external stakeholders, including our shareholders, customers, suppliers and manufacturers, industry regulators and business partners.

While the challenges we encountered in this past year are unlikely to abate in the next 12 months, the directors nevertheless have full confidence in the management team's ability to sustain performance.

David Nurek

Independent non-executive chairman

David Nurek
Independent non-executive chairman

BOARD OF DIRECTORS

1. David Nurek (63) – Dip in Law, Grad Dip Company Law

Independent non-executive chairman, Chairman of the Nomination Committee, Member of the Risk, Remuneration and Social, Ethics and Transformation Committees. Appointed July 2004

David was appointed non-executive chairman of Lewis Stores in 2001 and chairman of Lewis Group in 2004. His directorships include Clicks Group, The Foschini Group, Trencor and Distell Group.

David practised as an attorney with Sonnenberg Hoffmann Galombik for over 30 years, ultimately serving as chairman. He joined Investec Bank in 2000 and is regional chairman of their Western Cape operations. David has been a non-executive director and chairman of a number of listed companies for over 21 years. During the course of his legal practice, David specialised in corporate and commercial matters and more recently in his position as a senior executive at Investec Group, he has been involved in dealing with a wide range of corporate and commercial issues.

2. Fatima Abrahams (50) – B Econ (Hons), M Com, D Com

Independent non-executive director, Chairperson of the Social, Ethics and Transformation Committee, Member of the Audit, Risk, Remuneration and Nomination Committees. Appointed September 2005

Fatima is a senior professor in industrial psychology at the University of the Western Cape (UWC) and a registered industrial psychologist. Her directorships include Clicks Group, The Foschini Group, Iliad Africa and she is chairperson of TSiBA Education, a non-profit private higher educational institution.

She was previously chairperson of the Department of Industrial Psychology and Dean of the Faculty of Economic and Management Sciences at UWC. She is an acknowledged academic who has presented papers at international and national conferences and published a number of accredited articles and academic works on human resources issues. She was also active in various professional bodies, including holding executive membership of the Education Committee of the Health Profession Council of South Africa (HPCSA). She was previously a non-executive director of Transnet, B2B Africa and chairperson of Victoria & Alfred Waterfront Holdings. She has served and continues to serve on the Audit and Risk Committees, Transformation And Remuneration committees of several companies and has built up sound business experience, with formidable networks over the years.

3. Zarina Bassa (48) B Acc, CA (SA)

Independent non-executive director, Member of the Audit, Risk, Nomination and Remuneration Committees. Appointed October 2009

Zarina is the chief executive officer of Zarina Bassa Investments and executive chairman of Songhai Capital. She is a non-executive director of Kumba Iron Ore, Vodacom South Africa, Sun International, Oceana Group, National Business Initiative, the Financial Services Board, Senwes and Woolworths Holdings. She is also the chairman of Yebo Yethu and the Kumba Iron Ore Audit and Risk Committees.

Zarina is a former partner of Ernst & Young and was previously an executive director at Absa Bank and a member of the Absa Group executive committee, with accountability for private banking. She has also previously chaired the Public Accountants and Auditors Board and the Auditing Standards Board and has been a member of the Accounting Standards Board, the JSE's GAAP Monitoring Panel, the board of the SA Institute of Chartered Accountants and vice president of ABASA. Zarina was named Top Women in Business and Government in 2007 and Top Business Personality in Financial Services: Banking in 2008.

4. Les Davies (57) CA (SA)

Chief financial officer. Appointed as director in April 2007

Les is the Chief Financial Officer. He has also served as a director of the group's insurer, Monarch Insurance, for 17 years and has been Chief executive officer of Monarch Insurance since 2008.

Les has over 30 years' experience in financial management within the retail industry and has been the financial director of Lewis Stores since 1989. Prior to joining the group Les spent five years as the financial director of AMC Classic. His experience covers a wide range of financial, administrative, legal, contractual, insurance and statutory compliance matters.

5. Johan Enslin (39)

Chief executive officer, Member of the Social, Ethics and Transformation Committee. Appointed as director in October 2009

Johan was appointed chief operating officer in 2007 with responsibility for the retail operations of the group. Johan was appointed chief executive officer in October 2009.

He joined the Lewis Group as a salesman in 1993. He rose rapidly through the ranks of the organisation, holding positions including branch manager, regional controller, divisional general manager, general manager operations, operations director, and chief operating officer of Lewis Stores (Pty) Ltd where he was responsible for all facets of Lewis and Best Home and Electric.

6. Sizakele Marutlulle (45) MA (Sociology)

Independent non-executive director, Member of the Audit, Risk, Remuneration and Nomination Committees, Appointed October 2009

Sizakele is the chief marketing officer, Africa for Absa Bank with overall responsibility for all Absa and Barclays Africa brand and marketing functions. She founded multi-cultural communications and marketing consultancy, Moonchild, and also held the position of CEO of advertising agency, Grey SA. She has held senior positions internationally and locally at SA Tourism, Herdbuoys McCann-Erickson, and various agencies. Sizakele was named Top Woman in Government and Business in 2005.

Her experience includes growth strategy planning, innovation and organisational change driving marketing, brand management and sales capabilities. Sizakele is a non-executive director of Zani Health Solutions, a member of the council for Vega School of Brand Communications and a member of the Institute of Directors.

7. Hilton Saven (60) – B Com, CA (SA)

Independent non-executive director, Chairman of the Audit and Risk Committees, Member of the Remuneration and Nomination Committees, Appointed June 2004

Hilton has been in the accounting profession since 1975 with Mazars. He is chairman of Mazars South Africa and serves as Co-CEO of Mazars International. He is also the vice-chairman of Praxity, a global alliance of independent accounting firms represented in 96 countries. He is also the non-executive chairman of Truworths International.

Hilton serves on a number of Audit, Risk and Remuneration Committees as well as consulting on the establishment and implementation of risk procedures and practices. His varied professional experience across numerous sectors enables him to add substantial value to the Lewis Group's accounting and financial disclosure obligation in relation to corporate governance, transaction structuring and communication with shareholders.

8. Alan Smart (68)

Independent non-executive director, Member of the Risk, Remuneration, Nomination and Social, Ethics and Transformation Committees, Appointed as a non-executive director in 2009

Alan served as the chief executive officer of the Lewis Group from 1991 until his retirement in 2009 when he was appointed as a non-executive director.

Alan started his career with Lewis in 1969. During this period he held various financial and operational positions including credit director and joint managing director. From 1995, in addition to his Lewis responsibilities he was chairman of GUS Canada Inc, a retail furniture group of 65 stores in eastern Canada and oversaw a turnaround programme. Alan served on the board of GUS plc from 1996 to 2004.

9. Ben van der Ross (66) – Diploma in Law

Independent non-executive director, Chairman of the Remuneration Committee, Member of the Audit, Risk and Nomination Committees, Appointed June 2004

Ben practiced as an attorney for 18 years and continues to consult to Van der Ross Motala attorneys. His directorships include Naspers, FirstRand Bank, Pick n Pay Stores, MMI Holdings and Distell Group. Ben is a former director of the Urban Foundation, the Independent Development Trust and CEO of Business South Africa. He was a commissioner of the Independent Electoral Commission for the first democratic elections in South Africa in 1994.

Ben has been a non-executive director of a number of listed companies for over 20 years and has served on the Audit and Risk Committees of most of these companies.

CHIEF EXECUTIVE OFFICER'S REPORT

"Our business model has ensured sustainable performance through all market conditions and has enabled the group to maintain its operating profit margin above 22% since listing on the JSE in 2004."

Introduction

Lewis Group produced a highly competitive performance in challenging retail conditions which once again highlights the strength and resilience of our business model.

Our decentralised business model has been consistently applied through all economic cycles and over several decades. In the past year the model ensured that debtor costs were tightly controlled in the deteriorating consumer credit environment.

Despite the tough trading climate, the group has also continued to invest for long-term sustainable growth by expanding the debtors' book, increasing the store base and refurbishing over 100 stores.

Decentralised business model

Our business model is a competitive advantage in an industry which favours centralised and impersonal call centre based contact with customers.

All aspects of the Lewis customer relationship are handled by managers and staff in our stores across the country. Customers are served by staff from their own communities and in their own language. We believe this personal interaction with customers creates trust and loyalty, evidenced by the 55% level of sales to existing customers.

While the group's credit granting and approval processes are centralised, stores are responsible for cash collection and follow-up with defaulting customers, and are incentivised on collections targets. Each store has its own vehicles which are used not only for deliveries but also for visiting customers in their homes to collect payments.

This business model allows Lewis to respond quickly to changes in the market and in customer behaviour. Store management and staff have an understanding of local conditions and issues which may be affecting their community. This could include wide scale retrenchments in the area, industrial action or even natural disasters. Staff are then able to work with customers to make short-term arrangements to overcome payment difficulties.

Lewis does not encourage debit orders and customers generally come into stores to pay monthly instalments. The regular interaction with customers also creates opportunities for repeat sales.

The personal contact with customers creates strong relationships over the lifespan of a contract. Building personal relationships is not possible through call centres.

Supply chain and delivery to customers is also decentralised. Lewis does not operate centralised warehouses or distribution centres and stock is delivered directly by suppliers to stores. Each store has a small warehouse located close by in low rental, non-retail space. This gives stores control over their merchandise and reduces stock obsolescence and markdowns. Stores are supported by a centralised merchandise allocation system. Deliveries are made directly from stores to customers, with an average of 90% of goods being delivered within 24 hours of the sale.

Our business model has ensured sustainable performance through all market conditions and has enabled the group to maintain its operating profit above 22% since listing on the JSE Limited in 2004.

Trading performance

Merchandise sales increased by 4.4% to R2.5 billion for the year, reflecting the current tight consumer economy and the impact of widespread labour instability during the year. Sales of the higher margin furniture and appliance category increased by 4% and furniture sales account for 54.3% of total merchandise sales. Sales of electronic goods increased by 6%, boosted by strong volume growth in panel television sets in the second half of the year.

Credit sales increased from 71.4% to 75.3% of total sales with the continued focus on attracting credit customers through exclusive merchandise offerings and targeted promotions. Credit sales have shown an increasing trend in recent years, growing from 68.5% in 2010.

The higher level of credit sales confirms that the group's credit offer is attractive, the merchandise appeals to credit customers and that the 71 new stores opened in the past three years are well-located to meet the needs of our target market.

The group's gross margin at 38.3% continued to benefit from the merchandise import programme and the strategy of sourcing innovative and exclusive products locally and internationally.

Our merchandise philosophy is based on the belief that customers are attracted into our stores by the product offering rather than the financial offering. The group imports approximately 25% of merchandise directly and this programme ensures product differentiation and competitive pricing. Imports originate predominantly from the Far East, supplemented by product from South America and selected European countries. New furniture ranges are introduced in June and October each year to offer continuous newness to customers.

The operating margin improved by 50 basis points to 24% as the group made sustained progress towards achieving the medium-term target of 25% to 26%.

It is pleasing that the operating margin expanded in all three brands, with the flagship Lewis brand increasing from 24.1% to 24.3%. Best Home and Electric increased operating margin from 22.3% to 25.1% owing to the growing proportion of furniture in the mix which now accounts for 38% of sales.

My Home lifted margin from 7% to 11.1%. Management continues to refine the merchandise offer to ensure it is appropriate for the brand's LSM 7 and 8 target market. After piloting My Home for the past two years the group will follow a cautious expansion strategy for the brand in the year ahead.

The group's financial performance is covered in the chief financial officer's report.

Johan Enslin
Chief executive officer

Tight debtor management

The overall quality of the debtors' book has remained stable in a weakening credit environment. After increasing by 5.4% for the first nine months, debtor cost growth was contained to 3.3% for the full year, highlighting the improving collections trend in the fourth quarter.

Debtor costs as a percentage of net debtors improved from 10.8% in 2012 to 9.4% in 2013, exceeding the target of 9.5% to 10.5%.

The average term of new credit contracts increased from 28 to 33 months following the introduction of a 36-month offer to make instalments on new deals more affordable. The group's maximum repayment term will not be extended beyond 36 months as this is considered an appropriate period for the furniture life cycle.

Satisfactory paid customers represent 69.4% of total debtors for 2013 compared to 72.1% in 2012. This decline can be largely attributed to customers being impacted by the labour unrest experienced during the year.

The credit application decline rate increased from 33.0% to 36.5% which highlights the levels of customer indebtedness and the impact of unsecured lending and debt consolidation products in the market.

Further details are contained in the credit report on page 46.

Expanding store base

During the past year 12 Lewis, 11 Best Home and Electric, and one My Home outlet were opened, bringing the store base to 619 at year-end. This includes 59 stores in Botswana, Lesotho, Namibia and Swaziland.

Lewis remains the country's largest furniture brand with 477 stores, Best Home and Electric has 129 outlets and My Home 13 stores.

All the new Lewis outlets opened during the year are the smaller format stores which average 200 to 250m^2 compared to the conventional stores of between 400 and 450m^2 These smaller stores are more profitable owing to the lower cost base and higher sales densities. Stores stock the core furniture lines with the balance of the range being available on the electronic touch screen merchandise catalogue in store. This enables stores to maintain lower stock holdings and employ fewer staff.

Lewis also took the opportunity to relocate to smaller premises and reduce space in large stores when leases came up for renewal. Currently 87 outlets, or 18% of the store base, are in this smaller format.

While the rate of store expansion is determined by the availability of quality retail space, 20 to 25 new stores are planned for the year ahead. The group remains committed to expanding the retail footprint to 700 in the medium-term.

Industry regulation

The chairman in his report has outlined the investigation being undertaken by industry regulators into the credit insurance industry. The regulators have embarked on a process of engagement with all role players in the credit industry and the furniture retail sector is engaging under the banner of the Consumer Goods Council of SA.

The task team plans to issue its initial report in July 2013 and we welcome both their commitment to engagement and moves to finalise the process as speedily as possible.

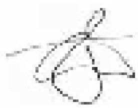
Prospects

The disposable income of our target market remains under pressure and consumer confidence continues to decline. In this challenging environment management will continue to focus on sourcing exclusive value-for-money merchandise and supporting this merchandise offer with strong marketing activity to attract credit customers. Containing expense growth and debtor costs will remain a top priority.

The group remains confident in its business model and will continue to invest in the growth of the debtors' book and in expanding the retail footprint.

Appreciation

Thank you to our chairman, David Nurek, for his leadership of the board and to my fellow directors for their support and guidance. Thank you to my executive colleagues, the management team and staff at head office and our stores for the commitment shown over the past year. Your efforts are truly appreciated.



Johan Enslin

Chief executive officer

OPERATING BOARD

1. Johan Enslin (39)

Chief executive officer and executive director of Lewis Group

Johan Enslin is the chief executive officer and his biography is on page 25.

2. Les Davies (57) CA (SA)

Chief financial officer and executive director of Lewis Group

Les Davies is the chief financial officer and his biography is on page 24.

3. Charles Irwin (59)

Group IT director, Appointed March 1999

Charles has spent his entire career in the retail industry, specialising for the last 25 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.

4. Neil Jansen (41) – MBL (UNISA), Diploma in Labour Law

Human resources director, Appointed September 2008

Neil spent the first 10 years of his career as an HR practitioner with the Transnet Group. In 2004 he joined the Naspers Group, initially as group HR manager for Via Africa and then spent four years as general manager human resources for Media24, the print media division of Naspers. He joined the Lewis Group in September 2008.

5. Derek Loudon (50)

Merchandising director, Appointed October 2008

Derek has over 30 years' retail experience, starting at Pick n Pay Stores where he progressed from trainee floor manager to buyer; as procurement manager at Airflex Furniture Industries and as the electrical merchandise executive at Morkels Limited. Derek joined Lewis as the general manager: Merchandise in May 2000.

"Lewis Group continued to deliver solid returns for its shareholders in a challenging environment where consumers came under renewed pressure from rising living costs." **Johan Enslin** chief executive officer

CHIEF FINANCIAL OFFICER'S REPORT

"It is pleasing to report that the group has achieved or exceeded all the financial and operating targets set for the 2013 financial year."

Introduction

Against the background of constrained consumer spending and a deteriorating credit environment, The Lewis Group has posted a resilient performance and continued to generate wealth for shareholders.

Headline earnings per share grew by 13.6% as tight control of operating expenses and debtor costs, together with higher credit sales, lifted the operating margin by 50 basis points to 24.0%.

The board increased the total dividend for the period by 16.3% to 514 cents.

Financial and operating targets are published to provide shareholders with a guide to the group's performance objectives each year. It is pleasing to report that the group has achieved or exceeded all the targets set for the 2013 financial year.

	Target	Achieved
Gross profit margin (%)	36 – 38	38.3
Operating costs as a % of revenue	36 – 37	36.2
Debtor costs as a % of net debtors	9.5 – 10.5	9.4
Operating profit margin (%)	23 – 24	24
Inventory turn (times)	5 – 5.5	5
Gearing ratio (%)	28 – 32	29.9

Financial performance

The following review of the group's financial performance for the year ended 31 March 2013 should be read together with the abridged consolidated financial statements on pages 81 to 89. The audited annual financial statements, together with supplementary reporting, are available to shareholders on the Lewis Group website, www.lewisgroup.co.za.

Income statement

Revenue increased by 6.8% to R5 188 million (2012: R4 857 million).

Merchandise sales grew by 4.4% to R2 470 million (2012: R2 365 million). Sales growth slowed from 6.4% in the first half to 2.7% in the second half, reflecting the increasing pressure on disposable income in the Lewis target market.

Trading space declined marginally despite the opening of 24 new stores as the group also took the opportunity to relocate to smaller premises and reduce space in large stores when leases came up for renewal.

The 15% growth in insurance income is attributable to the higher level of credit sales and the increasing proportion of longer-term (36-month) accounts in the debtor base. Revenue from ancillary services increased by 11% and finance charges earned increased by 2%.

The gross profit margin at 38.3% exceeded management's targeted range of 36% to 38%.

Analysis of operating costs	2013 Rm	2012 Rm	Change %
Employment costs	**792**	733	8.1
Admin and IT	**203**	221	(8.1)
Marketing	**191**	185	3.6
Occupancy costs	**233**	207	12.3
Transport/Travel	**185**	178	4.1
Depreciation	**55**	49	13.4
Other operating costs	**218**	177	22.8
Total	**1 877**	1 750	7.3
% of revenue	**36.2%**	36.0%	

Tight cost disciplines contained the growth in operating costs, excluding debtor costs, to 7.3%. Expenses include the expansion of the store base, the refurbishment of 111 stores, higher insurance claims and increased investment in staff training to improve productivity. Transport costs were well contained following the introduction of a transport management system. Savings were also made in the area of IT and communication costs.

Analysis of debtor costs	2013 Rm	2012 Rm
Total debtor costs	**540**	522
- Bad debts written-off	**418**	405
- Impairment provision	**122**	117
Debtor costs as a % of net debtors	**9.4**	10.8

In a challenging collection environment, the growth in debtor costs was contained to 3%. Debtor costs as a percentage of net debtors improved from 10.8% in 2012 to 9.4% in 2013, exceeding the target of 9.5% to 10.5%.

The growth in the debtors' book is due mainly to the higher level of credit sales and the increase in the average term of new credit contracts from 28 months to 33 months.

The group remains adequately provided with a 17.4% impairment provision (2012: 18%). This marginal reduction in the provision is largely as a result of the write-off of fully provided for debt mediation accounts for the first time this year.

Operating profit increased by 9.5% to R1.2 billion resulting in the operating profit margin improving from 23.5% in 2012 to 24.0% in 2013.

Investment income increased by 21.6% to R112 million and comprises interest, dividend income and realised equity gains.

Net finance costs increased by R33.1 million owing to higher average borrowings and lower foreign exchange gains during the year.

Headline earnings increased 14% to R890 million, with headline earnings per share growing 13.6% to 1 003 cents (2012: 883 cents).

Segmental performance

		Group	Lewis	Best Home and Electric	My Home
Revenue (Rm)		5 188	4 319	737	132
Revenue growth (%)		6.8	5.8	12.8	9.9
Merchandise sales (Rm)		2 470	2 040	35	80
Sales growth (%)		4.4	3.5	10.4	4.1
Operating profit (Rm)		1 248	1 048	185	15
Operating	2013	24.0	24.3	25.1	11.1
margin (%)	2012	23.5	24.1	22.3	7.0

- Lewis increased revenue by 5.8% and accounted for 83% (2012: 84%) of the group's revenue. Merchandise sales increased by 3.5% and the operating margin improved by 20 basis points to 24.3%
- Best Home and Electric grew revenue by 12.8% and merchandise sales by 10.4%. Furniture now accounts for 38% (2012: 34%) of the brand's sales. The operating margin increased from 22.3% to 25.1% mostly owing to the higher proportion of furniture in the sales mix.
- My Home lifted revenue by 9.9% and expanded operating margin from 7.0% to 11.1%.

The detailed financial and operational performance of the group's brands is covered in the merchandise and brands report on pages 42 to 45.

Balance sheet

Insurance investments increased by R326 million to R1 704 million. Monarch's investment portfolio is conservatively managed in conjunction with Sanlam Investment Management. At year-end 34% (2012: 32%) of the assets were held in listed equities and 66% (2012: 68%) in cash and bonds.

Inventory levels were well managed and totalled R306 million at year-end. Inventory turn at 5.0 times (2012: 5.1 times) was within the targeted range.

Net instalment sale and loan receivables increased by 17.7% to R5 719 million (2012: R4 858 million). The group's net asset value per share increased by 13.2% to R54.67.

Capital ratios	2013	2012
Return on equity (%)	**19.9**	20.0
Return on capital employed (%)	**16.7**	16.7
Return on assets (%)	**20.3**	21.1

Cash and capital management

The group's cash and capital management strategy is focused on investing in the longer-term growth of the business and returning capital to shareholders through dividend payments.

A total dividend of 514 cents (2012: 442 cents) was declared based on a dividend payout ratio of 55.5% (2012: 54.1%). This comprises an interim dividend of 212 cents (2012: 172 cents) and a final dividend of 302 cents (2012: 270 cents).

Net borrowings increased by R450 million to fund the growth in the debtors' book and insurance investments. The gearing ratio of 29.9% (2012: 23.3%) at year end is well within management's range of 28% to 32%.

Plans and targets for 2014

Capital expenditure of R100 million has been budgeted for the 2014 financial year. The majority of the expenditure will again be allocated to the ongoing renewal of the delivery fleet.

Product price inflation is expected to remain at low single digit levels.

No share buy-backs are currently planned for 2014. However, the group will seek authority from shareholders at the forthcoming annual general meeting to repurchase shares and use this mandate selectively should opportunities arise in future.

While the group plans to open 20 to 25 stores in the year ahead, total trading space is unlikely to increase as most of the new stores are in the smaller format and space will also be reduced when leases are renewed.

The financial targets for 2014 have been reviewed and revised as follows:

Financial and operating targets	2014	Medium-term
Gross profit margin (%)	37.5 – 38.5	37.5 – 38.5
Operating costs as a % of revenue	36 – 37	35 – 36
Debtor costs as a % of net debtors	9.5 – 10.5	9 – 9.5
Operating profit margin (%)	23.5 – 24.5	25 – 26
Inventory turn (times)	5 – 5.5	5 – 5.5
Gearing ratio (%)	30 - 34	< 35

Appreciation

Thank you to our shareholders for your support and to the broader investment community locally and offshore for your engagement with the group over the past year.

Les Davies

Chief financial officer

Les Davies
Chief financial officer

FIVE-YEAR REVIEW

Group Income Statements		2013 Rm	% change on LY	2012 Rm	2011 Rm	2010 Rm	2009 Rm
Revenue		5 187.6	6.8%	4 857.3	4 577.7	4 110.6	3 807.1
Merchandise Sales		2 470.3	4.4%	2 365.4	2 290.3	2 045.5	1 919.9
Cost of sales		(1 523.1)		(1 446.3)	(1 458.6)	(1 330.6)	(1 318.3)
Gross profit		947.2	3.1%	919.1	831.7	714.9	601.6
Gross profit margin		38.3%		38.9%	36.3%	34.9%	31.3%
Other revenue		2 717.3	9.0%	2 491.9	2 287.4	2 065.1	1 887.2
Finance charges earned		927.3		908.2	919.6	907.1	826.6
Insurance premiums earned		994.7		868.5	752.4	616.0	581.4
Ancillary services		795.3		715.2	615.4	542.0	479.2
Operating costs - excluding debtor costs		1 877.3	7.3%	1 749.6	1 607.7	1 438.6	1 317.7
Employment costs		792.0		732.9	693.5	607.4	542.0
Administration and IT		202.8		220.7	208.1	194.7	176.0
Marketing		191.2		184.5	156.5	134.3	124.0
Occupancy costs		232.7		207.3	186.1	165.1	150.5
Transport and travel		185.2		177.9	147.5	135.9	138.8
Depreciation		55.1		48.5	46.5	46.3	47.3
Other operating costs		218.3		177.8	169.5	154.9	139.1
Operating costs - excluding debtor costs (% of revenue)		36.2%		36.0%	35.1%	35.0%	34.6%
Debtor costs		539.6	3.3%	522.3	458.9	434.2	338.8
Operating profit		1 247.6	9.5%	**1 139.1**	**1 052.5**	**907.2**	**832.3**
Operating profit margin		24.0%		**23.5%**	**23.0%**	**22.1%**	**21.9%**
Investment income		111.8		91.9	82.0	77.5	76.9
Profit before interest and taxes (EBITA)		1 359.4	10.4%	1 231.0	1 134.5	984.7	909.2
Finance Costs		(96.3)		(63.2)	(91.9)	(121.2)	(86.5)
Interest		(98.3)		(78.4)	(83.9)	(88.7)	(97.0)
Forward exchange contracts		2.0		15.2	(8.0)	(32.5)	10.5
Net profit before tax		1 263.1	8.2%	1 167.8	1 042.6	863.5	822.7
Taxation		(355.7)		(367.2)	(330.7)	(272.1)	(261.5)
Attributable profit		907.4	13.3%	**800.6**	**711.9**	**591.4**	**561.2**
Headline earnings		890.1	14.0%	**780.7**	**688.9**	**565.5**	**556.2**
Productivity							
Number of stores		619		602	582	548	535
Trading space	m²	226 866		229 542	231 184	225 891	223 102
Trading density	R/m²	22 866	8.1%	21 161	19 801	18 197	17 064
Operating profit per m²	R	5 499	10.8%	4 962	4 553	4 016	3 731
Revenue per store	R 000's	8 381	3.9%	8 069	7 865	7 501	7 116
Operating profit per store	R 000's	2 016	6.6%	1 892	1 808	1 655	1 556
Revenue per employee	R 000's	701	1.9%	688	669	616	588
Operating profit per employee	R 000's	169	5.0%	161	154	136	128
Inventory turn	times	5.0		5.1	5.7	6.0	5.8

Group Balance Sheets		2013 Rm	2012 Rm	2011 Rm	2010 Rm	2009 Rm
Assets						
Non-current assets						
Property, plant and equipment		332.6	311.9	278.7	251.1	225.1
Insurance investments		1 238.3	1 005.3	857.1	716.0	535.1
		1 570.9	1 317.2	1 135.8	967.1	760.2
Current assets						
Inventories		305.8	281.4	256.3	210.0	228.0
Trade and other receivables		4 840.9	4 064.5	3 835.0	3 427.6	2 893.4
Insurance investments		465.9	373.3	240.2	178.1	199.1
Cash on hand and deposits		59.5	77.9	84.3	62.2	54.8
		5 672.1	4 797.1	4 415.8	3 877.9	3 375.3
Total assets		7 243.0	6 114.3	5 551.6	4 845.0	4 135.5
Equity and liabilities						
Capital and reserves		4 834.6	4 274.6	3 728.1	3 273.7	2 900.3
Liabilities						
Interest-bearing borrowings		1 505.5	1 074.0	1 083.0	961.4	737.0
Insurance creditors		476.6	352.7	319.2	257.4	192.5
Trade and other payables		207.2	233.1	247.8	192.6	211.6
Taxation and deferred taxation		148.8	116.3	114.1	108.1	40.2
Retirement benefits		70.3	63.6	59.4	51.8	53.9
		2 408.4	1 839.7	1 823.5	1 571.3	1 235.2
Total equity and liabilities		7 243.0	6 114.3	5 551.6	4 845.0	4 135.5
Credit ratios						
Credit sales %		75.3%	71.4%	71.4%	68.5%	64.3%
Bad debts as a % of net debtors		7.3%	8.3%	7.4%	8.3%	6.0%
Debtors costs as a % of net debtors		9.4%	10.8%	10.2%	10.9%	10.0%
Debtors impairment provision as a % of net debtors		17.4%	18.0%	16.8%	16.0%	15.7%
Satisfactory paid customers		69.4%	72.1%	74.5%	72.7%	72.0%
Arrear instalments on satisfactory paid accounts as a % of net debtors		8.6%	10.3%	10.1%	9.3%	9.5%
Arrear instalments on slow-paying and non-performing accounts as a % of net debtors		21.1%	21.9%	19.9%	19.8%	20.9%
Credit applications decline rate		36.5%	33.0%	31.5%	27.5%	25.4%
Solvency and liquidity						
Gearing ratio		29.9%	23.3%	26.8%	27.5%	23.5%
Financing cover	times	14.1	19.5	12.3	8.1	10.5
Current ratio	times	6.0	4.3	3.4	3.5	3.2
Returns						
Return on average shareholders funds (after-tax)		19.9%	20.0%	20.3%	19.2%	20.1%
Return on average capital employed (after-tax)		16.7%	16.7%	17.2%	17.2%	17.7%
Return on average assets managed (pre-tax)		20.3%	21.1%	21.8%	21.9%	23.0%

Group Cash Flow Statements	2013 Rm	2012 Rm	2011 Rm	2010 Rm	2009 Rm
Cash flow from operating activities					
Cash flow from trading	1 526.6	1 358.3	1 295.6	1 130.0	1 050.1
Change in working capital	(893.8)	(385.9)	(518.6)	(651.9)	(380.4)
Cash generated from operations	632.8	972.4	777.0	478.1	669.7
Dividends and interest received	100.5	76.6	66.0	59.9	96.3
Interest paid	(103.2)	(67.0)	(95.1)	(127.2)	(108.5)
Tax paid	(358.4)	(377.4)	(328.0)	(214.2)	(185.6)
	271.7	604.6	419.9	196.6	471.9
Cash utilised in investing activities					
Net additions to insurance investments	(183.8)	(194.1)	(160.4)	(60.5)	(111.7)
Acquisition of property, plant and equipment	(81.9)	(87.8)	(78.6)	(74.0)	(77.0)
Proceeds on disposal of property, plant and equipment	8.6	10.2	11.7	8.2	5.7
	(257.1)	(271.7)	(227.3)	(126.3)	(183.0)
Cash flow from financing activities					
Dividends paid	(428.1)	(335.5)	(295.6)	(284.4)	(284.3)
Increase / (decrease) in borrowings	400.0	300.0	0.0	450.0	200.0
Transactions on own shares	(36.4)	5.2	3.5	(2.9)	(50.2)
	(64.5)	(30.3)	(292.1)	162.7	(134.5)
Net cash movement in cash and cash equivalents	(49.9)	302.6	(99.5)	233.0	154.4
Cash and cash equivalents at the beginning of the year	(46.1)	(348.7)	(249.2)	(482.2)	(636.6)
Cash and cash equivalents at the end of the year	(96.0)	(46.1)	(348.7)	(249.2)	(482.2)
Analysis of Borrowings and Banking facilities					
Borrowings					
Long-term	1 250.0	650.0	400.0	350.0	100.0
Short-term	100.0	300.0	250.0	300.0	100.0
	1 350.0	950.0	650.0	650.0	200.0
Cash and cash equivalents					
Short-term facilities utilised	155.5	124.0	433.0	311.4	537.0
Cash on hand	(59.5)	(77.9)	(84.3)	(62.2)	(54.8)
	96.0	46.1	348.7	249.2	482.2
Net borrowings	1 446.0	996.1	998.7	899.2	682.2
Unutilised facilities	704.0	753.9	451.3	550.8	567.8
Total banking facilities	2 150.0	1 750.0	1 450.0	1 450.0	1 250.0

Indicators		2013	2012	2011	2010	2009
Share Performance						
Earnings per share	cents	1 022.4	905.0	807.2	672.0	636.2
Headline earnings per share	cents	1 002.9	882.5	781.1	642.6	630.5
Dividends declared per share	cents	514	442	363	323	323
Dividend payout ratio	%	55.5%	54.1%	50.0%	53.6%	56.4%
Cash flow per share	cents	713.0	1 099.2	881.0	543.3	759.2
Net asset value per share	cents	5 466.8	4 828.1	4 225.1	3 718.8	3 302.6
Share price:						
Closing price	R	64.63	76.20	74.50	56.50	42.69
High	R	78.84	89.00	85.00	61.30	52.00
Low	R	62.58	66.15	56.00	40.06	28.51
Normalised price-earnings ratio		6.3	8.4	9.2	8.4	6.7
Number of shares in issue (million)	million	98.1	98.1	98.1	98.1	98.1
Volume of shares traded (million)	million	79.9	79.9	68.5	95.9	96.0
Value of shares traded (million)	million	5 619	6 191	4 577	4 911	3 680
Market capitalisation (million)	million	6 337	7 472	7 305	5 540	4 188
Number of shareholders		4 767	4 173	6 161	1 968	1 609
Social and Environmnetal						
Average number of employees (permanent employees only)		7 398	7 062	6 842	6 668	6 480
Number of staff trained		7 564	5 604	3 096	2 627	2 148
B-BBEE level (current enacted scorecard)		4	4	5	7	n/a
Employment equity: black employees	%	90%	90%	89%	88%	83%
Gender equity: female employees	%	56%	55%	55%	55%	55%
Socio-economic development expenditure	Rm	9.2	8.3	7.3	6.1	2.6
Carbon footprint (estimated tonnes of CO_2 equivalents)		47 222	49 063	46 539	47 266	n/a
Participation in Carbon Disclosure Project		Yes	Yes	Yes	Yes	n/a
Inclusion in JSE Limited SRI Index		Yes	Yes	–	–	n/a

Explanatory Notes:

1. All ratios are based on figures at the end of the period unless otherwise disclosed.
2. The net asset value has been calculated using 88 435 000 shares in issue (2012: 88 536 000)
3. Total assets exclude the deferred tax asset.
4. The 2009 results have been restated for the change in accounting policy with regard to the deferred costs on initiation fees.
5. The 2009 to 2010 figures for the cash flow statement has been restated to exclude the short-term portion of long-term borrowings.
6. The B-BBEE scorecard level has been disclosed from 2010 onwards since the introduction of the current methodology prescribed by the Department of Trade and Industry.
7. The carbon footprint has been calculated since the 2010 financial year.

DEFINITIONS

The definitions below should be read in conjunction with the accounting policies set out in the Group annual financial statements available on our website www.lewisgroup.co.za or from the company secretary.

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 65% and 70% 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.

Market capitalisation

The closing price on the JSE Limited on 31 March multiplied by the number of shares in issue.

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.

Dividend payout ratio

The total dividends declared in respect of the financial year as a percentage of the profit attributable to ordinary shareholders.

OPERATIONAL REVIEW

MERCHANDISE AND BRANDS

Merchandise strategy

The group's merchandise strategy is based on the philosophy that customers are attracted into stores by the product offer rather than the credit offer.

The focus is therefore on providing customers with quality, exclusive and differentiated furniture ranges. This is achieved through the following:

- Products are supported by local and overseas after-sales service to ensure quality standards are maintained. Before consignments are despatched from suppliers a sample of all imported products are assembled and tested for quality purposes.
- Added value features and components on products ensure differentiation and enhance the perceived value of the merchandise.
- New furniture ranges are launched twice each year to offer ongoing newness to customers.
- An electronic merchandise catalogue is displayed in all stores as the complete merchandise range cannot be stocked in stores owing to space constraints. Sales staff assist customers to navigate their way through the full range on a large touch screen, as well as view all the available colour and fabric options.

During the past year management has continued to focus on increasing sales of the higher margin furniture and appliance product categories, which now accounts for 82.4% of total sales.

Merchandise sourcing

Products are sourced from local and international suppliers with a view to ensure exclusive product ranges. Products are sourced to meet the specific needs of the group's target customers in the lower to middle income group. The offering includes branded merchandise which is appealing to this target market, selling more contemporary lines in each furniture category to attract younger customers and furniture ranges for smaller homes.

The import programme ensures furniture ranges are developed using the latest designs and manufacturing techniques. International factories accommodate a broader range of developmental designs and offer a wider variety of raw materials which allows for product differentiation. Imports offer price and design advantages and mitigate the risk of disruption in local supply. Direct imports accounted for 24.6% of total purchases in the period under review.

Products are supported by local and overseas after-sales service to ensure quality standards are maintained. Before consignments are despatched from suppliers a sample of all imported products are assembled and tested for quality purposes.

Supply chain and logistics

The group's supply chain model is based on merchandise being delivered directly by suppliers to stores. The group does not operate distribution centres or centralised warehouses. Each store has a storage facility which is located close to the store, generally in an area with lower rentals than retail space. Stores have their own vehicles and are responsible for all deliveries to customers. This strategy has many benefits as it limits the build-up of obsolete stock and reduces mark-downs. It also significantly improves service levels as stores are able to make an average of 90% of deliveries within 24 hours of the sale.

"Innovative product sourcing both locally and offshore enables the group to offer customers exclusive and distinctive furniture ranges at affordable prices."

LEWIS

Lewis is South Africa's largest furniture brand and contributes 83% of the group's merchandise sales. Stores sell a range of household furniture, electrical appliances and home electronics to customers in the LSM 4 to 7 target market.

Stores are generally located in main streets and town centres. 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 has 477 stores, including 54 stores in Botswana, Lesotho, Namibia and Swaziland.

Conventional stores average 450m^2 and the smaller format stores 250m^2. The smaller format store, introduced four years ago, has enabled the chain to gain access to high traffic areas at more affordable rentals. This store format offers customers key merchandise lines, with the full range available in the electronic catalogue and on display screens in-store. Lewis now has 87 small format stores in its portfolio, an increase of 27 stores from last year.

Financial and operating performance		2013	2012	2011
Revenue	Rm	4 318.8	4 083.8	3 853.5
Revenue growth	%	5.8	6.0	11.0
Merchandise sales	Rm	2 039.7	1 971.0	1 901.9
Merchandise sales growth	%	3.5	3.6	12.6
Credit sales	%	75.6	72.1	72.2
Operating profit	Rm	1 047.7	985.1	919.7
Operating profit margin	%	24.3	24.1	23.9
New stores opened		12	17	21
Total stores		477	468	454
Total trading space	m^2	203 458	206 205	206 953
Annual revenue per m^2	R'000	21.2	19.8	18.6

BEST HOME AND ELECTRIC

Best Home and Electric is a retailer of electrical appliances, sound and vision equipment and selected furniture lines. The chain offers branded merchandise to its targeted customers in the growing LSM 4 to 7 groups.

The electronic catalogue is used extensively to market furniture ranges and furniture now accounts for 37.5% of sales in the chain.

Stores are smaller than Lewis stores and average 150m², being located mainly in high traffic areas with high trading densities.

Financial and operating performance		2013	2012	2011
Revenue	Rm	736.9	653.5	588.5
Revenue growth	%	12.8	11.0	16.9
Merchandise sales	Rm	350.9	318.0	287.4
Merchandise sales growth	%	10.4	10.6	17.9
Credit sales	%	75.9	70.0	70.8
Operating profit	Rm	185.3	145.6	126
Operating profit margin	%	25.1	22.3	21.4
New stores opened		11	12	15
Total stores		129	118	107
Total trading space	m²	18 204	16 881	15 415
Annual revenue per m²	R'000	40.4	38.7	38.2

MY HOME

My Home targets customers in the LSM 7 to 8 categories who require more aspirational furniture while utilising in-store credit facilities.

Introduced as a pilot project in 2010, My Home focuses on offering exclusive and innovative ranging of aspirational yet still traditional furniture.

Although aimed at a higher earning target market than Lewis, My Home applies the Lewis business model and utilises the group's well-established credit infrastructure.

Stores average 400 m^2 and are located mainly in high traffic areas.

The operating performance of My Home improved in the year. The merchandise offering will continue to be refined and the store base will be expanded cautiously.

Financial and operating performance		2013	2012
Revenue	Rm	131.9	119.9
Revenue growth	%	9.9	(11.6)
Merchandise sales	Rm	79.6	76.4
Merchandise sales growth	%	4.1	(24)
Operating profit	Rm	14.5	8.3
Operating profit margin	%	11	7
Total stores		13	16
Total trading space	m^2	5 204	5 579
Annual revenue per m^2	R'000	25.3	21.5

MONARCH INSURANCE

The retail chains are supported by Monarch Insurance, the group's short-term insurer, which offers a range of optional short-term insurance products to customers purchasing merchandise on credit.

Monarch is registered with the Financial Services Board and operates under a short-term insurance licence.

Insurance cover is offered for the settlement of customers' outstanding debt in the event of death, permanent disability, retrenchment and the replacement of goods as a result of accidental loss, such as fire, theft or natural disaster.

A task team comprising of the National Credit Regulator, the Financial Services Board and the National Treasury has been established to investigate the credit insurance industry. Lewis supports engagement with the regulators to bring about a speedy resolution to the current uncertainty in the market.

CREDIT REPORT

South African consumers have been impacted by widespread labour unrest, rising food, utility and transport costs. The groups' centralised credit granting and decentralised collection processes have been a core strength in managing credit risk and debtor costs in the current tight consumer environment.

Debtor costs settled at 9.4% of net debtors. This is an improvement on the target for 2013 of 9.5% to 10.5%. The medium-term target for debtor costs is 9% to 9.5% of net debtors.

An analysis of the group's debtors' book based on payment ratings shows that 69.4% of customers are in the 'satisfactory paid' category compared to 72.1% the previous year. Non-performing accounts increased from 13% to 14.2% at year-end. These non-performing accounts remain on the debtors' book for so long as it is economically viable to collect the outstanding debt.

The group remains adequately provided with a 17.4% impairment provision. This compares to average debtor costs of between 10% and 11% over the last four years.

Customer acquisition strategies supported an increase of 9.7% in credit sales from 71.4% in 2012 to 75.3%.

Credit policies were consistently applied during the year and the decline rate increased from 33.0% to 36.5%. This highlights the high levels of unsecured credit and speaks to the overall indebtedness of consumers.

Credit ratios and statistics

		2013	2012
Credit sales as % of total sales	%	**75.3**	71.4
Net debtors	Rm	**5 718.5**	4 858.2
Increase in net debtors	%	**17.7**	7.5
Debtors' impairment provision	Rm	**997.2**	875.2
Debtors' impairment provision as % of net debtors	%	**17.4**	18.0
Debtor costs	Rm	**539.6**	522.3
Debtor costs as a % of net debtors	%	**9.4**	10.8
Bad debts as a % of net debtors	%	**8.1**	8.3
Satisfactory paid accounts	%	**69.4**	72.1
Arrear instalments on satisfactory paid accounts as a % of net debtors	%	**8.6**	10.3
Arrear instalments on slow-paying and non-performing accounts as a % of net debtors	%	**21.1**	21.9
Credit application decline rate	%	**36.5**	33.0

Credit risk management

Credit risk management strategies have been consistently applied and it remains company policy never to re-schedule contracts.

Credit applications are transmitted to head office where the credit application scorecards are applied. Application risk scorecards predict the risk of a potential new customer becoming delinquent taking into account the applicant's payment record with other credit providers. Credit policies determine the credit limit, term and deposit required for each customer. The group currently uses 15 risk scorecards, while 76 risk segments have been defined for the application of credit policies across the group.

Behavioural scorecards predict the risk for repeat customers and are based on customers' payment behaviour with Lewis as well as outside credit providers. All existing customers are referenced at the credit bureau on a monthly basis to ensure that risk and affordability assessments are current.

When entering into a credit agreement, every customer is interviewed by the store manager and the cost of credit, terms and conditions of the credit sale and the benefits of the optional insurance product selected by the customer are explained.

As a responsible provider of credit, an important factor in granting credit is the level of indebtedness of an applicant as this impacts directly on the ability to service debt. A comprehensive affordability assessment of the customer is made which includes Lewis data, bureau information as well as the customers priority living expenses. To ensure accuracy of living expenses statistical models have been developed to benchmark information gathered from the customer. These statistics are updated regularly to cater for the changing economic environment.

The average ratio of household debt to disposable income of Lewis customers has increased from 45.8% to 47.2%, evidence of the increasing pressure customers are facing from rising fuel, electricity and food costs. However, the level compares favourably with the national average of 75% reflecting the potential for credit sales in the target market.

Credit collection

Lewis operates a decentralised credit collection process, with store-based follow-up and cash collection. We have intensified the focus on credit collections during 2013. A powerful, fully integrated IT system supports administration of the store process. This decentralised model is very effective as stores are located close to where customers work, shop, commute and live. Customers pay their monthly accounts in the store and the convenient locations make it easy to visit the stores.

Store collection staff are often from the same community and can communicate in the language of the customer which benefits the collection rate. The store-based collections model has proved its worth through economic cycles.

Customer ratings

Lewis operates a payment rating system which assesses customer payment behaviour over the lifetime of an account. The company assesses each customer individually on a monthly basis and categorises customers into 13 payment categories. This assessment is integral to the calculation of the debtors' impairment provision and incorporates both payment behavior and the age of the account. The 13 payment categories have been summarised into four main groupings of customers as set out below:

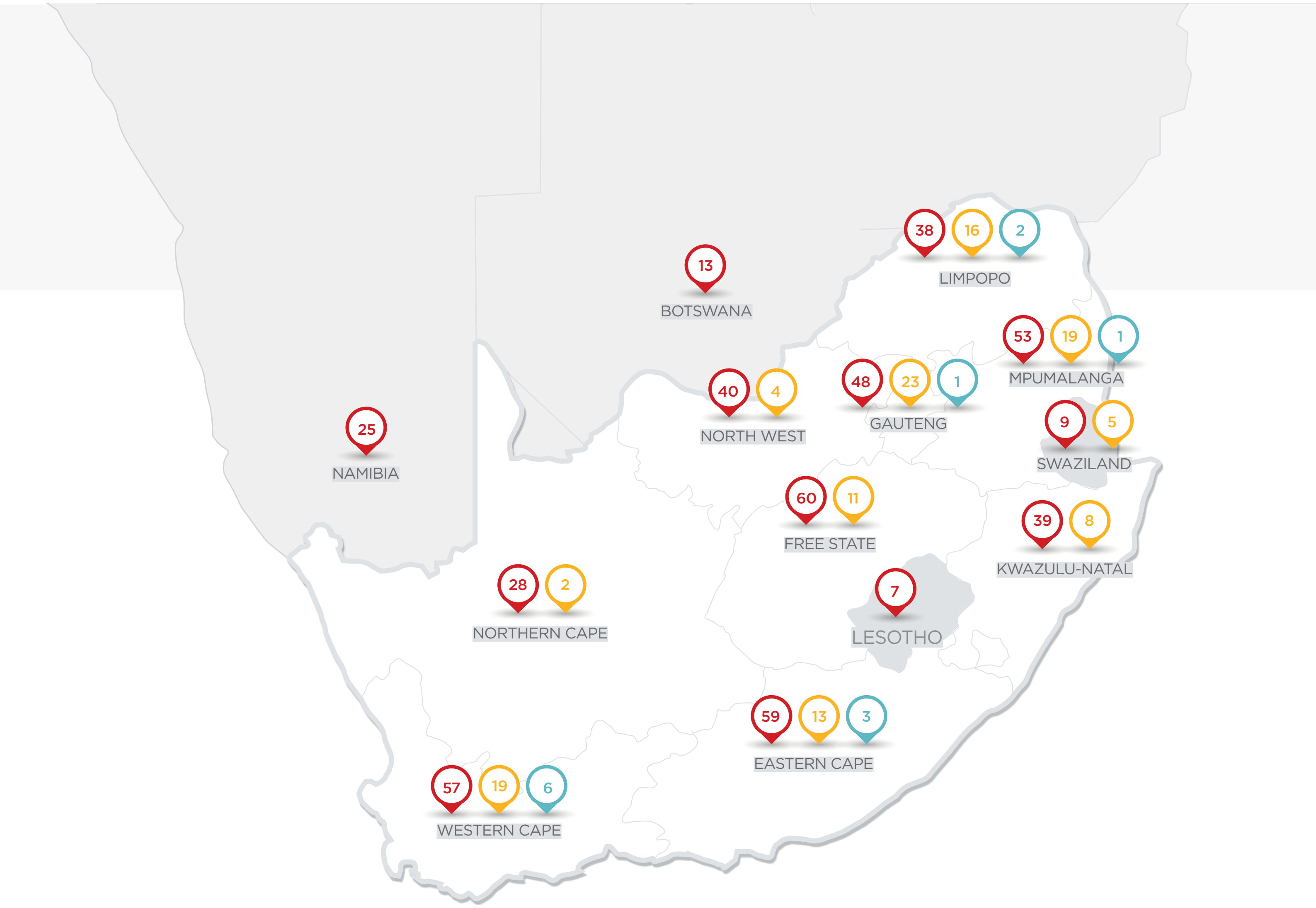
Debtors' payment analysis		**Number of customers**			**Distribution of impairment provision**	
		2013	2012		2013	2012
Satisfactory paid: Customers fully up-to-date, including those who have paid 70% or more of amounts due over the contract period. The provision in this category results from an *in duplum* provision	No %	**478 093** **69.4%**	491 478 72.1%	R %	**27 502** **2.8%**	35 100 4.0%
Slow Payers: Customers who have paid 65% to 70% of amounts due over the period of the contract. The provision in this category ranges from 12% to 79% of debtors and includes an *in duplum* provision (LY: 7% to 72%)	No %	**58 155** **8.5%**	55 791 8.2%	R %	**111 440** **11.2%**	104 129 11.9%
Non-performing customers: Customers who have paid 55% to 65% of amounts due over the period of the contract. The provision in this category ranges from 23% to 90% of Debtors (LY: 19% to 86%)	No %	**55 202** **8.0%**	45 978 6.7%	R %	**177 860** **17.8%**	137 178 15.7%
Non-performing customers: Customers who have paid 55% or less of amounts due over the contract period. The provision in this category ranges from 33% to 100% of debtors (LY: 28% to 100%)	No %	**97 093** **14.1%**	88 265 13.0%	R %	**680 393** **68.2%**	598 807 68.4%
Totals	No	**688 543**	681 512	R	**997 195**	875 214
Total impairment provision % of net debtors				%	**17.4%**	18.0%

Managing credit in the year ahead

During the 2014 financial year the group will continue with its prudent approach to credit management. Focus areas for the coming year include:

- Continuing to develop and refine predictive risk models to take account of changes in the credit market
- Increased focus of the operational credit team on improving productivity
- Enhancing retention strategies for existing customers
- Expanding on new account acquisition strategies

STORE FOOTPRINT



	LEWIS	BEST HOME AND ELECTRIC	MY HOME	TOTAL STORES
South Africa				
Free State	60	11		**71**
Eastern Cape	59	13	3	**75**
Western Cape	57	19	6	**82**
Mpumalanga	53	19	1	**73**
Gauteng	48	23	1	**72**
North West	40	11		**51**
Limpopo	38	16	2	**56**
KwaZulu-Natal	39	8		**47**
Northern Cape	29	4		**33**
Total - South Africa	**423**	**124**	**13**	**560**
Namibia	25			**25**
Botswana	13			**13**
Swaziland	9	5		**14**
Lesotho	7			**7**
Total - outside South Africa	54	5	0	**59**
Stores at 31 March 2013	**477**	**129**	**13**	**619**
Stores at 31 March 2012	468	118	16	**602**

GOVERNANCE

REMUNERATION REPORT

Remuneration philosophy

Lewis Group strives to create a performance-oriented culture which fairly rewards staff for their contribution in achieving the group's strategic, financial and operational objectives. Key to the group's remuneration philosophy is recognising employees' contribution to the success of the business and their commitment to the company's values. The growth and sustainability of the business is dependent on the group's ability to attract, retain and motivate competent people.

Remuneration principles

Remuneration practices are structured to encourage sustainable, long-term wealth creation through the following:

- Aligning remuneration practices with the group's strategy
- Aligning executive reward systems with the interests of stakeholders
- Promoting a performance-based culture across the business
- Offering appropriate short-term and long-term performance-related rewards that are fair and achievable
- Attracting and retaining talented individuals in the furniture retail and financial services industries
- Rewarding, retaining and motivating talented personnel while effectively managing employment costs

Remuneration governance

The board is accountable for the remuneration philosophy, policy and practices. Responsibility for oversight of the group's remuneration policies and practices has been delegated to the Remuneration Committee.

The responsibilities of the committee are as follows:

- Ensuring the remuneration policy is aligned with the group's strategic objectives and encourages superior individual performance
- Reviewing and approving compensation of executive and non-executive directors
- Ensuring executive directors are equitably rewarded based on market trends, surveys, individual performance and contribution
- Reviewing incentive schemes to ensure continued alignment to the enhancement of shareholder value
- Approving the award of share incentives
- Ensuring employee benefits are suitably disclosed.
- Recommending non-executive directors' fees for shareholder approval based on market information
- Ensuring practices are compliant with relevant legislation and regulation

The committee is chaired by an independent non-executive director. The chief executive officer attends meetings at the invitation of the committee. The committee may at its discretion invite other executives or external advisers to attend meetings but no individual may be present during their performance appraisal or remuneration discussion.

The group's remuneration policy is subject to a non-binding advisory vote by shareholders at the annual general meeting each year. This enables shareholders to express their views on the remuneration policy and for the board to take these views into account.

Remuneration benchmarking

Remuneration needs to be market-based and competitive owing to the portability of skills in the retail and financial services sectors. External remuneration surveys are used to benchmark executive and non-executive remuneration in comparable positions. Market surveys assist in ensuring executives are competitively rewarded in line with their performance and contribution. Remuneration packages are determined by considering market trends, the importance of a position relative to the group's business, the required skills set, job specific expertise, performance and contribution of individuals.

Remuneration structure

Remuneration is optimised through a combination of annual guaranteed pay, benefits, and short-and long-term incentives.

Executive directors

The remuneration structure of executive directors is closely linked to the achievement of the group's financial and operating targets, and is therefore closely aligned to the interests of shareholders.

Executive director remuneration packages comprise the following elements, with a significant portion of remuneration being performance-related:

1. Annual guaranteed pay
2. Annual cash-based performance bonus
3. Medium-and long-term share-based incentives.

Executive directors have service contracts which are subject to one year's notice period from either party.

Annual guaranteed pay

Annual guaranteed pay includes a cash salary and company contributions to retirement and healthcare funding. Cash salaries are set at the market median and are benchmarked against peers in comparable positions in similar companies. Salaries are reviewed annually by the Remuneration Committee and the level of increase is merit-based in relation to individual and group performance, and also considers market pay movements. Increases are effective from 1 April at the start of the financial year.

Annual cash-based performance bonus

Executive directors participate in a performance bonus scheme which is linked to their base salary. No portion of any executive director bonus is guaranteed. Bonus payments are based on group performance relative to board-approved budgeted targets. The performance of the executive directors is evaluated against the following financial and operating targets:

- Revenue growth
- Merchandise sales growth
- Gross profit margin
- Operating cost management
- Debtor cost management
- Growth in operating profit
- Growth in net profit before taxation.
- Growth in earnings per share

The targets for gross profit margin, operating costs, debtor costs and operating profit margin are disclosed in the Integrated Annual Report each year. Detail on performance relative to these targets is included on page 9. The targets for revenue growth, merchandise sales growth, net profit before taxation and earnings per share are not disclosed as this is considered by the board to be market and price sensitive information.

The performance against the targeted net profit before tax is disclosed for the past three years under the executive performance scheme below.

The sustainability of the group's business is critical in determining remuneration and performance targets are designed to discourage increased risk taking by the executives.

Achievement of between 90% and 100% of target results in the payment of a bonus increasing on a pro rata basis from 50% to 100% of cash salary. Where actual performance exceeds 100% up to a maximum of 110% of target, bonuses are increased on a pro rata basis and capped at a maximum of 150% of cash salary.

The achievement of targets is reviewed by the Remuneration Committee before any incentive payments are made to executive directors. Bonuses are paid at the end of the first quarter of the following financial year.

Medium and long-term share-based incentives

Share incentive schemes are aimed at motivating the executive directors to contribute to the long-term growth and sustainability of the group, attracting and retaining talented people and aligning rewards with shareholder interests.

The group's share schemes are equity-settled. The total number of shares and options under the schemes may not exceed 10% in the aggregate of the group's issued share capital. Currently the total number of shares and options allocated under the schemes amount to 1.34% in aggregate of the group's issued share capital. Awards will only be paid if the participant is in the employ of the group at the time of vesting, other than in the event of death, ill-health, retirement or retrenchment.

Participation in the schemes is at the discretion of the Remuneration Committee and limited to the executive directors of Lewis Group and the directors, general managers and selected senior staff ("executives") of Lewis Stores, the group's main operating subsidiary. Awards are made annually in June. Special awards can be made when the Remuneration Committee deems it appropriate

Executive Performance Scheme

Awards under this scheme offer executives the right to acquire shares for no consideration, subject to the achievement of board-approved budgeted annual performance targets. Awards vest after three years. Targets are set for each of the three years and a proportionate number of shares are allocated to each year. These shares are accrued based on the vesting scale set out below. No performance shares will accrue in a particular year if the group achieves less than 90% of its targeted performance in that year.

The vesting scale which applies in each year is as follows:

90.0% and 95.0% of budgeted net profit	40% vesting
95.1% and 99.9% of budgeted net profit	70% vesting
100% of budgeted net profit	100% vesting

Performance against targets for the past three years

	2012	**2011**	**2010**
Net profit before taxation target (Rm)	1 146	962	830
Actual result (Rm)	**1 168**	**1 043**	**864**
Vesting %	100%	100%	100%

Co-investment Scheme

This scheme is aimed at retaining executives. Executives are able to invest all or part of their net after tax annual performance bonus in the group's shares. At the date of the award matching shares equal to the pre-tax amount invested by the executives are granted for no consideration. These invested shares are held by the share trust for three years. There are no performance criteria for these matching shares as executives have already met the performance targets required to receive their annual bonus. The matching shares only vest if the executive is in the employ of the group at the end of the three-year period, and has not elected early withdrawal from the scheme.

Long-term retention scheme

In 2009 the Remuneration Committee approved a long-term retention scheme for senior executives based on two criteria:

- Lewis Group must maintain its operating profit margin above 20% for five years with each year assessed independently; and
- The executive must be employed with the Lewis Group at the vesting date.

The term of the scheme is five years with one-third of the award vesting each year from the third anniversary date of the award to the fifth anniversary date.

Performance against target for the past three years

	Year 3 September 2012		Year 2 September 2011		Year 1 September 2010	
	Mar 2012	Sep 2012	Mar 2011	Sep 2011	Mar 2010	Sep 2010
Actual operating profit margin %	**23.5%**	**21.4%**	**23.0%**	**21.9%**	**22.1%**	**22.0%**
Operating profit margin % target	20%		20%		20%	

At the first vesting date of 30 September 2012, one third of the share awards vested as follows:

Executive	Total Share Award	Vesting %	September 2012 Vesting
Johan Enslin	120 000	**33.3%**	**40 000**
Les Davies	80 000	**33.3%**	**26 667**

Other senior management

The directors, general managers and selected senior staff of Lewis Stores receive an annual guaranteed salary, which includes retirement and healthcare benefits. They may also participate in the annual performance bonus scheme and the medium-and long-term share-based incentive schemes described above, at the discretion of the Remuneration Committee. Salaries are reviewed annually and the level of increase is based on group and individual performance.

Staff

Staff receive a base salary, performance-linked incentives or a 13th cheque, retirement and healthcare funding. The group subsidises membership of designated healthcare schemes. Staff benefits include educational bursaries, discounts on staff purchases and low-cost funeral and personal accident insurance. Membership of one of the group's five retirement funds is compulsory for all permanent staff. Salaries are reviewed annually and the level of increase is based on group and individual performance.

Salespersons earn a commission on gross profit once a commission barrier is exceeded. Operational management are incentivised on a balanced set of targets including sales, collections, write-offs, stock management and expense control.

Non-executive directors

Non-executive directors are paid a fee for their services as directors. In addition, fees are paid for serving on board committees. The fees are bench-marked externally against comparable companies and based on an assessment of the non-executive director's time commitment and increased regulatory and governance obligations.

In line with best governance and remuneration practice, non-executives do not participate in the group's incentive schemes. None of the non-executive directors have service contracts with the group and no consultancy fees were paid to non-executive directors during the period.

The remuneration of non-executive directors is reviewed annually by the Remuneration Committee and recommended to shareholders for approval at the annual general meeting.

REMUNERATION REPORT FOR 2013

There have been no material changes in remuneration practices during the reporting period.

The group's remuneration policy was again proposed to shareholders for a non-binding advisory vote at the annual general meeting in August 2012, and was approved by the majority of shareholders.

The remuneration and share awards paid to executive directors follows below. As the group's two prescribed officers in terms of the Companies Act are both executive directors, this meets the King III requirement to disclose all remuneration paid to prescribed officers.

EXECUTIVE DIRECTORS' REMUNERATION

					Gains on share awards			
Director (R'000)	**Salaries**	**Bonuses paid ***	**Pension contributions**	**Medical aid contributions**	**Executive Performance scheme**		**Co-Investment scheme**	**Total remuneration**
					5 year §	**3 year +**		
2013								
Johan Enslin	2 790	1 641	446	88	2 780	2 603	1 046	11 394
Les Davies	2 195	1 315	351	100	1 853	2 612	976	9 402
Total	**4 985**	**2 956**	**797**	**188**	**4 633**	**5 215**	**2 022**	**20 796**
2012								
Johan Enslin	2 524	2 258	404	81	–	2 230	1 299	8 796
Les Davies	2 023	1 850	324	83	–	2 230	1 299	7 809
Total	**4 547**	**4 108**	**728**	**164**	**–**	**4 460**	**2 598**	**16 605**

* The bonuses paid in the current financial year relate to the achievement of the performance targets for the 2012 financial year.

+ The gain on share awards in the current financial year relate to shares awarded in terms of the three-year Executive Performance Scheme in June 2009, having achieved the performance targets for the financial years 2010, 2011 and 2012. (refer to page 51)

§ The gain on share awards in the current financial year relates to shares awarded in terms of the five-year Retention Scheme in September 2009, having achieved the performance targets for the past three years (refer to page 52)

x The gain in the current financial year under the Co-Investment Scheme relates to the bonus earned for the financial year 2009, which was invested in the company's shares by the executives for the last three years to March 2012.

OUTSTANDING SHARE AWARDS

2013		**Executive Performance Scheme Number of shares**			**Co-Investment Scheme Number of shares**		
Date of share awards		**Johan Enslin**	**Les Davies**	**Total**	**Johan Enslin**	**Les Davies**	**Total**
September 2009	five-year award	80 000	53 333	133 333	–	–	–
June 2010	three-year award	38 429	31 494	69 923	24 092	21 757	45 849
June 2011	three-year award	31 782	25 468	57 250	28 399	23 269	51 668
June 2012	three-year award	37 527	29 520	67 047	22 270	17 850	40 120
Total		**187 738**	**139 815**	**327 553**	**74 761**	**62 876**	**137 637**

In terms of the Lewis Co-Investment Scheme, the Trust holds 82 581 shares (2012: 74 660 shares) on behalf of the above directors by virtue of the investment of their bonuses into the scheme.

The potential dilutionary effect of the outstanding awards amounts to 0.47% of the shares in issue.

SHARES VESTED DURING THE 2013 FINANCIAL YEAR

Director		Date awarded	Shares awarded	Shares forfeited	Shares vested	Gains on share awards R'000
Executive Performance Scheme						
Johan Enslin	three-year award	June 2009	34 669	–	34 669	2 603
	five-year award	Sep 2009	40 000	–	40 000	2 780
Les Davies	three-year award	June 2009	34 782		34 782	2 612
	five-year award	Sep 2009	26 667		26 667	1 853
Total			136 118	–	136 118	9 848
Co-Investment Scheme						
Johan Enslin		June 2009	13 924	–	13 924	1 046
Les Davies		June 2009	12 995	–	12 995	976
Total			26 919	–	26 919	2 022

Non-executive directors' fees

Director (R'000)	2013	2012
David Nurek	926	880
Fatima Abrahams	516	490
Zarina Bassa	447	425
Sizakele Marutlulle	447	425
Hilton Saven	836	793
Alan Smart	674	638
Ben van der Ross	499	475
Total	4 345	4 126

Proposed non-executive director fees for 2013

Board/committee position (R'000)	Proposed fees for 2014	Fees paid for 2013
Non-executive chairman	475	450
Non-executive director	227	213
Audit Committee chairman	233	220
Audit Committee member/invitee	100	96
Risk Committee chairman	110	104
Risk Committee member	69	65
Remuneration Committee chairman	110	104
Remuneration Committee member	55	51
Nomination Committee chairman	75	70
Nomination Committee member	32	29
Social, Ethics and Transformation Committee chairman	110	70
Social, Ethics and Transformation Committee member	55	29

Directors' shareholding

At 31 March 2013 the directors' beneficial direct and indirect interest in the company's issued shares was as follows:

	2013		2012	
Director	**Direct**	**Indirect**	Direct	Indirect
David Nurek	–	10 000	-	10 000
Hilton Saven	–	2 940	-	2 940
Alan Smart	319 070	–	319 070	-
Johan Enslin	20 000	44 856	-	39 848
Les Davies	141 185	37 725	96 144	34 812
Total	480 255	95 521	415 214	87 600

CORPORATE GOVERNANCE REPORT

Lewis Group is committed to maintaining a culture of effective corporate governance to ensure the long-term sustainability of the business. The group therefore embraces the principles of integrity, transparency and accountability in its dealings with all stakeholders.

The group has adopted the recommendations of the *King Report on Corporate Governance* (King III) which was introduced in March 2010 and implemented the changes required by the Companies Act (Act 71 of 2008, as amended) which came into effect on 1 May 2011.

Governance developments

In an environment of increasing regulatory compliance, governance structures and processes are regularly reviewed in response to changing requirements and to ensure alignment with best practice. During the past year the following changes were introduced, mainly relating to King III and the new Companies Act:

The process to develop and implement an information security management system (ISMS) is a work in progress.

- The Lewis Group Memorandum of Incorporation has been adopted at the AGM and subsequently registered with CIPC.
- The Memorandum of Incorporation for the subsidiary companies have been approved by shareholders and subsequently registered with CIPC.
- The combined assurance model has been formalised.

Application of King III principles

In line with the 'apply or explain' philosophy of King III the group has elected not to apply the following principles and is satisfied that alternate governance controls have been implemented:

Principle 6.4 recommends that an independent compliance officer be appointed. The board has delegated responsibility for the implementation of an effective compliance framework to management. Responsibility for compliance has been assigned to the company secretary to identify legislative impacts on the group; business unit heads are responsible for compliance with the legislation; legal specialists support the group in ensuring legislative compliance. The board has approved the revised legal and compliance framework and is satisfied that it operates effectively.

Principle 9.3 requires sustainability reporting and disclosure to be independently assured. Specific sustainability elements, including the Broad-Based Black Economic Empowerment (B-BBEE)scorecard and carbon emissions, have been verified by accredited agencies. Management plans to expand the external verification of sustainability indicators in the forthcoming years.

Board of directors

Board charter

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

- overseeing relationships with stakeholders of the company along sound governance principles;
- contributing to and approving the strategy;
- overseeing that the strategy results in sustainable outcomes;
- considering sustainability as a business opportunity that guides strategy formulation;
- ensuring that the company is playing its role as responsible corporate citizen by taking into account the impact of the business operations on society and the environment;
- providing oversight of performance against targets and objectives;
- assessing the group as a going concern;
- approving the annual and interim financial statements;
- providing effective leadership on an ethical foundation;
- overseeing key performance and risk areas;
- ensuring effective risk management and internal control;
- responsibility for overseeing IT governance;
- overseeing legislative, regulatory and governance compliance;
- ensuring appropriate remuneration policies and practices;
- overseeing director selection, orientation and evaluation;
- 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, with the board chaired by an independent non-executive chairman. The board has delegated authority to the chief executive officer for the implementation of the strategy and the ongoing management of the business.

Board composition

In line with the recommendations of King III, Lewis Group has a unitary board structure consisting of seven non-executive directors and two full-time, salaried executive directors. Background information on the directors appears on page 30 of this report. There were no changes to the board during the year.

The composition of the board for the year was as follows:

Independent non-executive directors

David Nurek

Fatima Abrahams

Zarina Bassa

Sizakele Marutlulle

Hilton Saven

Alan Smart (independent non-executive director from 1 October 2012)

Ben van der Ross

Executive directors

Johan Enslin

Les Davies

Directors do not have a fixed term of appointment and non-executive directors are subject to retirement by rotation and re-election by shareholders at least every three years. Directors appointed during the year are required to have their appointments ratified at the following AGM. The chairman is elected by the board after the AGM each year. Executive directors are subject to a 12 month notice period.

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

Director independence

The Nomination Committee has assessed the independence of the non-executive directors and concluded that all the non-executive directors, including the chairman, are independent in terms of both the King III definition and the guidelines of the JSE Listings Requirements. Alan Smart was reclassified as an independent non-executive director with effect from 1 October 2012.

Board meetings

The board met four times since April 2012. 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. The directors' attendance of meetings follows on page 63.

Board evaluation

All directors participate in the annual evaluation of the board's performance. The questionnaire-based evaluation covers the board's role and agenda setting; the size, independence and composition of the board; director orientation and development; board meetings; board committees; board accountability and governance practices. The process also includes an assessment of the performance of the chairman, chief executive officer and the company secretary. In addition the chairman has individual sessions with each director.

The board evaluation results were satisfactory and areas for improvement are being addressed.

Company secretary

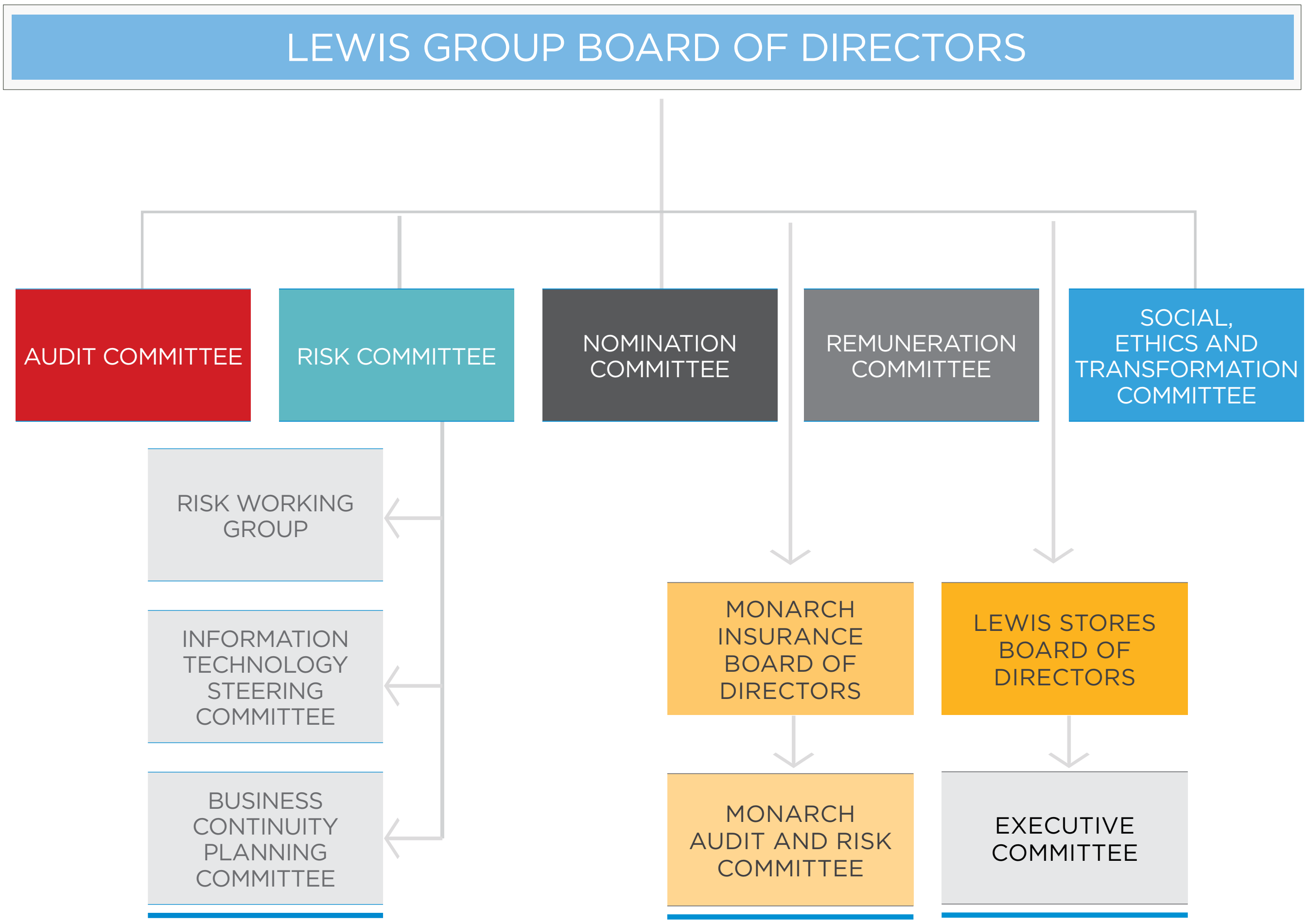
The company secretary acts as adviser to the board and plays a pivotal role in ensuring compliance with regulations, the induction of new directors and providing advice to directors on governance, compliance and their fiduciary responsibilities.

The directors have unrestricted access to the advice and services of the company secretary. They are entitled to seek independent professional advice at the company's expense after consultation with the chairman of the board. No directors exercised this right during the year. Directors also have unrestricted access to all company information and may meet independently with management.

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

GOVERNANCE STRUCTURE

The following board and committee structure applied for the period under review:



BOARD COMMITTEES

The board of directors has delegated specific responsibilities to five 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 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 internal or external auditors.
– Reviewing the adequacy of internal controls and internal financial controls.
– Ensuring regulatory compliance.
  – Overseeing the integrated annual reporting process, which include:
  – Reviewing the financial reporting system, evaluating and approving accounting policies and the financial information issued to stakeholders in terms of IFRS.
– Reviewing disclosure on sustainability to ensure it is reliable and does not conflict with the financial information.
– Reviewing the expertise, resources and experience of the company's financial function and financial director.
– Assessing the effectiveness of internal financial controls based on assurance gained from management and written assessment from Internal Audit.
– Monitoring the ethical conduct of the company, its directors and senior officials.
	Chair – Hilton Saven
	The committee consists of three independent non-executive directors. The directors are financially literate and suitably qualified to perform their role. The remaining non-executive directors attend by invitation.
	
	Meetings are also attended by the chief executive officer, chief financial officer, company secretary, internal audit executive, chief risk officer and the external auditors.
	
	Meetings
	Four per year
	
	Refer to the audit committee report on pages 75 to 77.

Lewis Group Risk Committee

Purpose and function	Composition

– Annually reviewing the risk management policy and plan and recommending these for approval to the board.
– Making recommendations on risk tolerance and appetite.
– Annually reviewing the risk register of strategic and key operational risks. Monitoring implementation of the risk management policy and plan.
– Assessing the effectiveness of the system and process of risk management based on assurance gained from management and written assessment from Internal Audit on the effectiveness of internal controls and risk management.
– Reviewing and advising on the adequacy of insurance cover for recommendation to the board
– Overseeing IT governance and the function of the IT Steering Committee by:
  – Ensuring that an IT charter and policies are established and implemented;
  – Ensuring that an IT internal control framework is adopted and implemented;
  – Receiving independent assurance on the effectiveness of the IT internal controls.
	Chair – Hilton Saven
	The committee consists of seven independent non-executive directors and two executive directors
	
	Meetings are also attended by the company secretary, internal audit executive, the chief risk officer and the information technology director.
	
	Meetings
	Four per year

Lewis Group Nomination Committee

Purpose and function	Composition
– Establishing a formal process for the appointment of directors. – Overseeing a formal induction programme for new directors and continuing development programmes for all directors. – Ensuring directors receive regular briefings on changes in risks, laws and the environment in which the group operates. – Ensuring succession plans are developed for the chief executive officer and senior management. – Confirming annually that none of the directors have become disqualified (fit-and-proper test). – Ensuring the board has the required skills, experience and qualities.	Chair – David Nurek The committee consists of seven independent non-executive directors. The chief executive officer attends meetings at the invitation of the committee. **Meetings** Two per year

Lewis Group Rumuneration Committee

Purpose and function	Composition
– Ensuring the remuneration policy is aligned with the group's strategic objectives and encourages superior individual performance. – Reviewing and approving compensation of executive directors, non-executive directors and senior executives. – Ensuring executive directors are fairly rewarded based on market trends, surveys, individual performance and contribution. – Reviewing incentive schemes to ensure continued alignment to the enhancement of shareholder value. – Approving the award of share incentives. – Ensuring employee benefits are suitably disclosed. – Recommending non-executive directors' fees for shareholder approval. – Ensuring practices are compliant with relevant legislation and regulation.	Chair – Ben van der Ross The committee consists of seven independent non-executive directors. The chief executive officer attends meetings at the invitation of the committee. **Meetings** Two per year Refer to the remuneration report on page 50.

Lewis Group Social, Ethics and Transformation Committee

Purpose and function	Composition
– Monitoring the group's activities relating to social and economic development, good corporate citizenship, community upliftment, the environment, health and public safety, consumer relationships, labour and employment. – Maintaining a transformation strategy and approving the transformation programme. – Setting and monitoring of progress against transformation targets, including the annual evaluation of performance against the DTI scorecard. – Reviewing of reports from verification agencies. – Transformation-related legislative compliance.	Chair – Fatima Abrahams The committee consists of three independent non-executive directors and one executive director. Members of management attend the meetings by invitation. **Meetings** Two per year Refer to the social, ethics and transformation report on pages 66 to 72.

Lewis Stores (Proprietary) Limited

Lewis Stores (Proprietary) Limited is the main trading subsidiary of the group and operational responsibility has been delegated to the Lewis Stores board for the ongoing management of the business.

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. – Overseeing the corporate code of conduct.	Chair – Johan Enslin The board consists of five executive directors, namely the chief executive officer, chief financial officer, directors of merchandising, human resources and information technology. **Meetings** Three per year

Governance committees of Lewis Stores

- **Executive Committee** consists of 15 members, including the five directors of Lewis Stores, and the heads of key areas of operation within Lewis. The committee meets three times a year in conjunction with the Lewis Stores board meetings.
- **Risk Working Group** consists of the 15 members of the Executive Committee. The group meets three times a year in conjunction with the Lewis Stores board meetings. Refer to page 59 for their responsibilities, which are supervised by the Risk Committee.
- **Information Technology Steering Committee** meets quarterly and comprises the chief executive officer, chief financial officer, IT director as well as business systems and IT operations executives. The committee reports into the Risk Committee.The committee is responsible for:
  - Ensuring that the implementation of the IT policy and plan conforms to the objectives of the IT charter;
  - Aligning IT with the business needs of the group;
  - Prioritising investment decisions relating to IT resources;
  - Sourcing decisions relating to IT services;
  - Identifying and exploiting IT opportunities;
  - Administrative and contractual decisions which have a significant impact;
  - Monitoring IT costs and capital expenditure;
  - A process to monitor, prioritise and co-ordinate the IT project portfolio;
  - Reporting to the Risk Committee on the performance of its duties;
  - Implementing COBIT as its principle IT internal control framework; and
  - Implementing ISO 27000 as the Information Security Management System (ISMS) standard.
- **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 and other emergency situations. The committee meets in conjunction with the Information Technology Steering Committee meetings. 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. The committee comprises the chief executive officer, chief financial officer and IT director.

Monarch Insurance Company Limited (Monarch)

Monarch 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, Robert Shaw and Ray Sanger, provide insurance advisory services to Monarch.

A formal report on the investment portfolio by Sanlam Investment Management, who manage the portfolio on Monarch's behalf, 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.	Chair – Alan Smart The board consists of three independent non-executive directors, two non-executive directors and one executive director.
– Approval of budgets.	**Meetings** Four per year
– Providing oversight of performance against targets and objectives.	
– Providing effective leadership on an ethical foundation.	
– Overseeing relationships with stakeholders.	
– Regular review of underwriting criteria.	
– Adoption of asset allocation strategies for the investment portfolio, based on recommendations from Sanlam Investment Management.	
– Review of the performance of the investment portfolio against bench-marks.	
– Ensuring regulatory compliance.	
– Oversee key performance and risk areas.	
– Ensuring effective risk management and internal control.	
– Assessing director selection, orientation and evaluation.	
– Approving significant accounting policies.	
– Approving the annual financial statements.	

Monarch Audit and Risk Committee

Purpose and function	Composition
– Reviewing the internal and external audit plans relative to the group's audit plan. – Providing guidance on non-audit services. – Considering significant differences of opinion between management and internal or external auditors. – 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. – Reviewing the adequacy of internal controls and internal financial controls. – Annually reviewing the risk register of strategic and key operational risks. Monitoring implementation of the risk management policy and plan. – Addressing risks specific to the company that have been identified in the group risk management process. – Assessing the effectiveness of the system and process of risk management based on assurance gained from management and written assessment from Internal Audit on the effectiveness of internal controls and risk management.	Chairman – Hilton Saven The committee consists of two independent non-executive directors and one non-executive director. Meetings are attended by the chief financial officer, company secretary, the group's internal audit executive, the chief risk officer and external auditors. **Meetings** Four per year

In terms of the Companies Act, non-executive director Robert Shaw is deemed to be a material supplier to Monarch and is therefore precluded from being a member of the Audit and Risk Committee.

BOARD AND COMMITTEE ATTENDANCE

Lewis Group Limited

	Board	Audit	Risk	Remuneration	Nomination	Social, ethics and transformation
Number of meetings	4	4	4	2	2	2
Non-executive directors						
D M Nurek	4+	4°	4	2	2+	2
F Abrahams	4	2/2°*	2	2	2	2+
Z Bassa	4	4	4	2	2	
S Marutlulle	4	2/2°*	3	2	2	
H Saven	4	4+	4+	2	2	
A J Smart	4	4°	4	2	2	2
B J van der Ross	4	4	3	2+	1	
Executive directors						
J Enslin	4	4°	4	2°	2°	2
L A Davies	4	4°	4			

\+ Chair
° By invitation
* Attended two meetings as a committee member and two meetings by invitation.

Internal accountability

Risk management

A risk management process is followed to identify, assess and manage potential risks and opportunities that may affect group strategies and objectives. The risk management framework includes the risk management policy, relevant responsibilities and the risk management plan.

The board is responsible for the oversight of the risk management process and has delegated specific responsibility to the Risk Committee. The committee is responsible for ensuring the group has implemented an effective policy and plan for risk, and that disclosure regarding risk is comprehensive, timely and relevant.

The Risk Working Group (RWG) is responsible for designing and implementing the risk management process and monitoring ongoing progress. Senior executives and line management within each business unit are accountable for managing risk in achieving their financial and operating objectives.

The focus of the risk management process is on strategic and key operational risks. A top-down approach is applied by the business units in the group in assessing the risks twice a year. The RWG reviews the registers with a focus on:

- completeness of risks identified across the group;
- causes of the risks;
- the residual risk ratings;
- the tolerance levels based on the risk indicators; and
- the need for further management action.

The risks identified by the business units are consolidated by category of risk into a group register and the results of the group risk assessment are reported to the Risk Committee of Lewis Group and the Audit and Risk Committee of Monarch Insurance.

The key risks are documented in the strategic management plan on pages 8 to 15. In the current environment, regulatory risk remains a key focus for management. Further detail on regulatory and legislative compliance is set out on page 65.

The group's external insurance and self-insurance programmes cover a wide range of risks. The insurance levels and insured events are reviewed annually to ensure adequate cover and amended after taking into account changed processes and emerging risks.

Internal control

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 confirms that during the period under review the group has maintained an efficient and effective process to manage key risks. The directors are not aware of any current or anticipated key risks that may threaten the sustainability of the business.

Going concern

The board is satisfied that the group will be a going concern for the foreseeable future, based on the budget and cash flows for the year to 31 March 2014, as well as the current financial position. The financial statements have therefore been prepared on the going concern basis. The board is apprised of the group's going concern status at the board meetings coinciding with the interim and final results.

Internal audit

The internal audit function provides information to assist in the establishment and maintenance of an effective system of internal control to manage the risks associated with the business. Internal audit has performed a written assessment confirming the effectiveness of the company's system of internal control and risk management, including internal financial controls. The role of internal audit is detailed in the internal audit charter which has been approved by the Audit committee. Refer to the Audit Committee Report in the annual financial statements.

Information technology governance

Information technology (IT) governance is integrated into the group's operations, and governance practices and frameworks are reviewed as part of the annual internal audit plan. The IT Steering Committee is responsible for IT governance and reports into the Risk Committee (refer to page 61).

Personal share dealings

An insider trading policy restricts directors and specifically identified staff from dealing in the shares of Lewis Group during closed periods. The closed periods are effective from the end of the interim and annual reporting periods until the financial results are disclosed on SENS. Embargoes are also placed on share dealing when the group is trading under a cautionary statement.

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 Committee. It is mandatory to notify the company secretary of any dealings in the company's shares. This information is then disclosed to the JSE Limited within 48 hours of the trade being effected and the details published on SENS. A register of share dealings by directors is maintained by the company secretary and reviewed by the board.

Compliance and codes of conduct

Regulatory and legislative compliance

There were no cases of legislative or regulatory non-compliance during the year and no penalties or sanctions were imposed on the group or any of its directors or officers during the year. No requests for information were withheld by the group in terms of the Promotion of Access to Information Act.

Lewis has continued to charge its defaulting credit customers the cost of their monthly credit insurance premium under certain circumstances of default by them, which may potentially be in contravention of section 103(5) of the National Credit Act, based on an interpretation of a recent Supreme Court of Appeal Judgment. Lewis has engaged with the National Credit Regulator and made a submission to the Department of Trade and Industry. The matter has been placed on the parliamentary agenda as part of the review of the National Credit Act.

New and proposed legislation impacting the group includes the following:

- Protection of Personal Information Act: The Act is expected to be promulgated during the 2013 year.
- Administrative Adjudication of Road Traffic Offences Amendment Bill: The Bill has been in operation in a pilot phase in Johannesburg and Tshwane with plans for roll out nationwide.

Behavioural and ethical compliance

The group adheres to the highest standards of ethical conduct. The board approved ethics framework, code of conduct and core values outline the standards of honesty, integrity and mutual respect which employees are required to observe.

A conflict of interest policy is aimed at ensuring employees act in the best interests of the group and do not profit from their position in the company. The policy governs employees' relationships with suppliers, serving as office bearers on external organisations and industry bodies, and receiving gifts and hospitality from suppliers.

The corporate fraud policy sets out the responsibility of staff and management towards the detection, prevention and reporting of fraud. A confidential hotline is available to all employees to report suspected incidents of fraud or dishonesty.

SOCIAL, ETHICS AND TRANSFORMATION REPORT

The Social, Ethics and Transformation Committee was established in March 2012 in compliance with the requirements of the Companies Act. The committee has an independent role and makes recommendations to the board for its consideration and approval.

Responsibilities of the committee

The responsibilities of the committee are as follows:

Social and ethics

- Monitor activities relating to social and economic development, including the principles of the United Nations Global Compact, the Organisation for Economic Co-operation and Development recommendations regarding corruption, the Employment Equity Act and the Broad-Based Empowerment Act
- Good corporate citizenship, including the promotion of equality, prevention of unfair discrimination, reduction of corruption, contribution to the development of communities, and record of sponsorship, donations and charitable giving
- The environment, health and public safety, including the impact of the group's activities and of its products and services
- Consumer relationships, including the group's advertising, public relations and compliance with consumer protection laws
- Labour and employment, including the standing in terms of the International Labour Organisation Protocol on decent work and working conditions, the group's employment relationships and its contribution toward the educational development of its employees.

Transformation

- developing and maintaining a transformation strategy
- approving a transformation programme
- setting targets in terms of the Codes of Good Practice of the Department of Trade and Industry (DTI)
- reviewing of reports from verification agencies
- annual evaluation of the group's performance against the DTI scorecard
- legislative compliance

Composition and functioning

The committee comprises three non-executive directors, namely Professor Fatima Abrahams (Chairperson), David Nurek and Alan Smart, and an executive director, Johan Enslin. Senior management in the human resources, merchandise, socio-economic development and risk departments attend by invitation. Biographical details of the committee members appear on pages 24 and 25.

The members of the committee believe that the group is substantively addressing the issues required to be monitored by the committee in terms of the Companies Act. The group's progress on transformation, social and environmental management are covered in the following pages.

Values and ethics

The group's values are core to its business philosophy and guides the way the group conducts its business practices. A formalised policy details the group's code of ethical and acceptable conduct in line with the Principles of the United Nations Global Compact. This policy, together with the group's behavioural code and code of conduct, is made available to all employees.

In addition, the group has a written policy regarding the acceptance of gifts from current or prospective suppliers and participation in recreational events sponsored by these suppliers.

Suppliers and supplier contracts

The supplier code of conduct has been updated to include the Ten Principles of the United Nations Global Compact. This code of conduct has been circulated to all suppliers and will be implemented with suppliers as the agreements are renewed.

Political party support and lobbying activities

The group supports the multi-party democratic process but does not make donations to any political parties in South Africa or elsewhere. The group does not provide corporate resources to political candidates or parties.

Transformation

The group supports the principles and objectives of Broad-Based Black Economic Empowerment (B-BBEE) contained in the DTI Codes of Good Practice on B-BBEE. The board acknowledges its oversight role in driving transformation and empowerment across all seven elements of the DTI scorecard.

The group was awarded a level 4 B-BBEE contributor status in June 2012 which has been verified by AQRate, an accredited empowerment rating agency. The 2013 scorecard will be verified in June 2013.

The committee has noted the proposed amendments to the BEE Codes of Good Practice published in October 2012 and the group submitted a response via the Consumer Goods Council of South Africa. Based on the current regulatory environment, the Group aims to maintain its level 4 status for 2014.

BEE element	Maximum	**2012**	2011	2010
Equity ownership	20	**10.5**	0	0
Management control	10	**4.7**	4.5	4.5
Employment equity	15	**5.9**	8.3	7.7
Skills development	15	**11.5**	7.9	3.4
Preferential procurement	20	**16.6**	18.5	14.1
Enterprise development	15	**15.0**	15.0	7.7
Socio-economic development	5	**5.0**	5.0	4.5
Total	100	**69.2**	59.1	41.9
B-BBEE contributor status		**Level 4**	Level 5	Level 7

Employment equity

Management is committed to ensuring that the group's employee profile is representative of the customer base it serves and the communities in which it trades.

The group's employment equity plan focuses on increasing the representation of designated groups, mainly in the senior management and professionally qualified areas. Strategies have been developed to achieve internal employment equity targets, including the implementation of a comprehensive learning and development plan, in-service training of retail management students, granting bursaries, job profiling and performance assessments.

Black staff account for 90.6% of the staff complement, with females comprising 56.4%.

The employment equity profile of the workforce in South Africa (excluding neighbouring countries) at 31 March 2013 is contained in the following table:

Employee profile (South Africa)

	Male			Female				Male	Total
Occupational levels	**African**	**Coloured**	**Indian**	**African**	**Coloured**	**Indian**	**White**	**White**	
Top management	0	1	0	0	0	0	0	4	**5**
Senior management	3	2	0	0	1	1	3	24	**34**
Professionally qualified	20	10	2	17	20	3	38	68	**178**
Skilled technical	198	60	6	200	141	13	141	70	**829**
Semi-skilled	1 809	566	11	2 099	775	42	247	28	**5 577**
Unskilled	20	5	0	4	2	0	0	0	**31**
Non-permanent	0	0	0	0	0	0	0	0	**0**
Total	**2 050**	**644**	**19**	**2 320**	**939**	**59**	**429**	**194**	**6 654**

Skills development

An extensive range of training courses are offered to all employees to enhance performance and skills. Several of these courses are aimed at developing scarce skills relevant to the retail sector, focusing on sales, stock management, credit control and management skills.

A total of 7 546 training interventions were completed in 2013, an increase of 33% over 2012. Black staff accounted for 87% of total employees trained. In the past year the internship programme was extended to include 380 students.

The group also introduced a leadership development course for all branch managers and supervisors. The group's training department is accredited with the Wholesale and Retail Sector Education and Training Authority and offers a range of e-learning programmes.

Preferential procurement and enterprise development

The group's merchandise strategy is to offer exclusive, differentiated and value-for-money products to customers. Large volumes of locally sourced merchandise, goods and services are bought from small businesses which are mainly black-owned. These businesses have continued to benefit from the group's preferential procurement and enterprise development initiatives.

This continued investment in enterprise development strengthens the local supply base and stimulates job creation in the domestic economy.

The support we provide to our enterprise development partners includes:

– Raw material sourcing
– Product development and design
– Quality control
– Administrative Business support

The group will continue to focus on developing business partners, both local and overseas in order to further improve the supply chain.

The Lewis Group is conscious of its responsibility to contribute to the communities where our customers live. Many of these communities are affected by a lack of education, poverty and poor health.

Socio-economic development

The group is committed to continued investment in community initiatives benefiting charitable organisations in the fields of education, welfare and health. In the past year R9.2 million was committed to socio-economic development projects in the communities where our customers live, representing an increase of 11% on the previous year.

The committee approved the socio-economic development strategy for the year which is focused on the following areas:

- Primary projects comprising the building, establishment and operation of early learning development centres
- Established projects where the group provides ongoing operational funding for educational, health and welfare projects
- Employee community involvement
- Projects in other Southern African countries where the group operates; and
- Bursaries to universities and other tertiary institutions

Primary projects

Project Build (formerly Natal Schools Project) was established in 1977 and aims to improve the quality of life for disadvantaged communities in KwaZulu-Natal in respect of educational and community facilities. The project brings together communities, funders, sponsors and local builders to develop these facilities while creating employment and providing classrooms.

The group has also contributed to the building of classrooms and facilities at Ikwezi Primary School in Bethal, Mpumalanga, and Matswathaka Primary School in Bethlehem, Free State.

Afrika Tikkun undertakes projects mainly to support orphans and vulnerable children that allow the community to take ownership within five years and ensure the projects are self-sustaining. Lewis has funded the building of an early childhood development centre in Mfuleni and over 200 children from the Mfuleni community have already been enrolled. Lewis has also committed to contribute R1.5 million towards operational costs for the next three years.

Community Chest is an active contributor to many welfare organisations. The strategic focus of the Community Chest is aligned with that of the Lewis Group and the group is an anchor sponsor for the annual Twilight Team Run in Cape Town. The group continues to fund capacity building and training programmes where NGOs are trained in sustainable business management.

Peninsula School Feeding Association provides daily meals to children in primary, secondary and special-needs schools across the Western Cape. Lewis has adopted 11 schools and provides meals to over 1 250 children each school day.

The Lewis Group is committed to continued investment in community initiatives benefiting charitable organisations in the fields of education, welfare and health.

Environmental sustainability

The group qualified for inclusion in the JSE Socially Responsible Investment (SRI) Index for the second successive year in 2012. The SRI Index is acknowledged as the benchmark of sustainability and recognises listed companies for incorporating sustainability practices into their business operations. The SRI Index covers environmental, social, governance and related sustainability issues as well as climate change.

The group is embedding environmentally sustainable business practices into its operations. The Environmental Management System (EMS) includes the following:

- identification of the direct and indirect environmental impacts of the group;
- improving the direct impact of business activities where economically viable; and
- creating awareness with stakeholders through the appropriate level of reporting.

The group has made good progress in implementing this EMS, particularly in relation to reducing fuel consumption and recycling initiatives.

Carbon footprint

A carbon footprint assessment was performed by independent environmental specialists. The footprint was calculated for Scope 1, 2 and selected Scope 3 Greenhouse Gas (GHG) emissions utilising the GHG protocol.

- Scope 1 is the direct impact of the group's activities – fuel combustion in company vehicles.
- Scope 2 is the indirect emissions resulting from electricity consumption.
- Scope 3 is the measure of the corporate value chain. This year's carbon footprint assessment was expanded to include the following selected Scope 3 categories:
  - Upstream distribution focused on South African road logistics
  - Business travel – domestic and international flights and car hire
  - Employee commuting
  - the consumption of paper, printing materials and recycling of paper

Carbon footprint results for Scope 1 and 2 emissions

Scope	Source	2013 Emissions (tonnes CO2e)	% Change	2012 Emissions (tonnes CO2e)	2011 Emissions (tonnes CO2e)
Scope 1	South African fuel	19 911	(8.0%)	21 646	20 828
	International fuel	2 483	6.3%	2 336	2 305
	Total Scope 1	22 394	(6.6%)	**23 983**	**23 132**
Scope 2	South African electricity	23 240	(3.5%)	24 082	21 889
	International electricity	1 588	(4.0%)	1 654	1 518
	Total Scope 2	24 828	(3.5%)	25 736	23 407
TOTAL SCOPE 1 & 2		47 222	(5.0%)	49 718	46 539
Scope 2 – GECs			n/a	(655)	–
TOTAL SCOPE 1 & 2 (Incl GECs)		47 222	(3.8%)	49 063	46 539

The results show an overall decline in emissions with a 6.6% decrease in Scope 1 emissions and a 3.5% decrease in Scope 2 emissions over 2012 levels.

Carbon footprint results for selected Scope 3 emissions

Scope 3 Category	Emission Source	Comments	2013 Emissions (tonnes CO2e)	2012 Emissions (tonnes CO2e)
Fuel and energy	Upstream emissions from synfuel production	Complete assessment	21 286	not determined
Upstream transportation and distribution	Outsourced road distribution within South Africa	Partial assessment – excludes shipping	3 309	not determined
Business travel	Domestic and international flights	Complete assessment	204	161
	Car hire	Complete assessment	80	not determined
Employee commuting	Staff transport emissions travelling to and from work	Average data method used	4 198	not determined

Partial assessment of Scope 3 emissions is accepted practice and is compliant with the GHG protocol, as conducting a comprehensive Scope 3 assessment is often prohibitively data and resource intensive. The implication, however, is that the total of these figures should not be interpreted as the complete Scope 3 carbon footprint.

The group is committed to improving the direct impact of its business activities in the following ways:

- Fuel consumption: A vehicle management system was implemented in 2013 and is already yielding significant reductions in fuel consumption across the fleet
- Electricity consumption: Energy efficient lighting technology is used in new stores and in the refurbishment and maintenance programmes
- Material usage: Digital pen technology was introduced into stores during the past financial year to reduce paper usage
- Recycling: Printer ink cartridges, paper and packaging materials will continue to be recycled

ABRIDGED CONSOLIDATED FINANCIAL STATEMENTS

INTRODUCTION

The abridged consolidated financial statements on pages 81 to 89 are derived from the audited consolidated financial statements for the year ended 31 March 2013. The group has applied the provisions of the Companies Act 71 of 2008, as amended, which allows for abridged financial statements to be published in the Integrated Annual Report.

The abridged consolidated financial statements should be read in conjunction with the group's audited consolidated financial statements which are available at www.lewisgroup.co.za, or on request from the company secretary.

The audited consolidated financial statements have been prepared under the supervision of the chief financial officer, Les Davies CA (SA).

DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for the preparation and fair presentation of the abridged consolidated financial statements, comprising the abridged consolidated balance sheet as at 31 March 2013, and the abridged consolidated income statement, changes in equity and cash flows for the year then ended, and related notes in accordance with the requirements of Section 8.57 of the JSE Limited Listing Requirements.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for maintaining adequate accounting records and an effective system of risk management.

The directors believe that the group has adequate resources to continue in operation for the foreseeable future and the audited consolidated financial statements have therefore been prepared on a going concern basis.

The auditors are responsible for reporting on whether the abridged consolidated financial statements, derived from the audited consolidated financial statements, are consistent, in all material respects, with those audited consolidated financial statements.

APPROVAL OF THE ABRIDGED CONSOLIDATED FINANCIAL STATEMENTS

The audited consolidated financial statements, including these abridged consolidated financial statements set out on pages 81 to 89, were approved by the board of directors of the Lewis Group and are signed on its behalf by:

David Nurek
Independent non-executive chairman

Johan Enslin
Chief executive officer

22 May 2013

AUDIT COMMITTEE REPORT

The Audit Committee ("the committee") has pleasure in submitting its report for the year ended 31 March 2013 in compliance with the Companies Act 71 of 2008, as amended.

Introduction

The committee has an independent role with accountability to the board. The committee operates in accordance with a documented charter and complies with all relevant legislation, regulation and governance codes. The committee's terms of reference are reviewed annually and approved by the board.

The committee's role and responsibilities includes its statutory duties and further responsibilities as assigned by the board. The committee executed its duties in terms of the requirements of King III.

The committee acts as the Audit Committee for all the subsidiaries in the Lewis Group except for Monarch Insurance Company Limited ("Monarch") which has its own Audit and Risk Committee.

Objectives

The objectives of the committee are:

- To assist the board to discharge its duties relating to the safeguarding of assets, the operation of adequate systems and controls, overseeing integrated annual reporting, 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 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 perform their statutory functions under section 94 of the Companies Act.
- To advise on any matter referred to the committee by the board of directors.

Relationship with the Monarch Audit and Risk Committee

- Due to the integrated nature of the group's systems and processes, the Lewis Group Audit Committee has responsibility relating to:
  - Internal and external audit management
  - Maintenance of an effective internal control system
- In order for the Monarch Audit and Risk Committee to discharge its responsibilities under the Short-term Insurance Act, the Lewis Group Audit Committee refers any issues relating to these matters to the Monarch Audit and Risk Committee where such issues impact on Monarch.
- The duty and scope of the Monarch Audit and Risk Committee in monitoring the compliance with legal and regulatory requirements has been extended to include the Financial Advisory and Intermediary Services Act due to its interrelationship with the insurance activities of the group.
- The minutes of all Monarch Audit and Risk Committee meetings are submitted and reviewed by the Lewis Group Audit Committee.

Membership

The committee comprised the following independent non-executive directors:

H Saven (chairman)

ZBM Bassa

BJ van der Ross

F Abrahams

MSP Marutlulle

Biographical details of the committee members are provided on page 24 to 25 of the integrated annual report. Fees paid to the committee members are outlined in the table of directors' remuneration on page 54 of the remuneration report.

The chairman of the board, chief executive officer, chief financial officer, certain of the other non-executive directors and representatives of the internal and external auditors attend the meetings as invitees.

The chairman of the committee also meets separately with the external and internal auditors, without members of executive management being present. The effectiveness of the committee is assessed as part of the annual board and committee self-evaluation process.

Committee activities

The committee met four times during the year under review. Attendance of the members has been set out on page 63 of the Corporate Governance Report.

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 a detailed review of the going concern assumption and confirmed that the going concern assumption was appropriate in the preparation of the financial statements.

Integrated report

The committee fulfils an oversight role regarding the company's integrated annual report and the reporting process.

- considered the company's integrated annual report and has assessed its consistency with operational, financial and other information known to the audit committee members, and for consistency with the annual financial statements. The committee is satisfied that the integrated annual report is materially accurate, complete and reliable and consistent with the annual financial statements.
- the committee has, at its meeting held on 20 May 2013, recommended the integrated annual report for the year ended 31 March 2013 for approval by the board of directors.

External auditors

- reviewed the independence of PricewaterhouseCoopers 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 (refer section on Independence of External Auditors);
- approved, in consultation with management, the audit fee and engagement terms for the external auditors for the 2013 financial year. The fees paid to the auditors are disclosed in note 21 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. It is the policy of the group that the auditor is restricted from rendering accounting, IT consulting services, company secretarial, internal audit and human resource 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.

The committee was not required to deal with any complaints relating to accounting practices or internal audit, nor to the content or audit of the group's financial statements, the internal financial controls and related matters.

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;
- satisfied as to the credibility, independence and objectivity of the internal audit function.
- internal audit has direct access to the committee, primarily through the committee's chairman.
- 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. The committee is advised of all internal control developments and advised of any material losses, with none being reported during the year;
- considering and reviewing with management and internal auditors any significant findings and management responses thereto in relation to reliable financial reporting, corporate governance and effective internal control to ensure appropriate action is taken.
- oversaw the co-operation between internal audit and external auditors, and the committee is satisfied that the company has optimised the assurance coverage obtained from management, internal and external assurance providers in accordance with an appropriate combined assurance model.
- assessed the performance and qualification of the internal audit function and found them to be satisfactory.

Internal 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;
- reviewed the quarterly report on taxation;
- reviewed information technology reports; and
- considered and, where appropriate, made recommendations on internal financial control.

Internal audit has performed a written assessment of the effectiveness of the company's system of internal control and risk management, including internal financial controls. This written assessment by internal audit, as well as other information available to the committee, formed the basis for the committee's recommendation to the board, on the effectiveness of the system of internal controls to be included in the Integrated Annual Report.

Governance of risk

The board has assigned oversight of the company's risk management function to the Risk committee. The minutes of the Risk committee are made available to the Audit committee to assist them in fulfilling its oversight role with respect to financial reporting risks arising from internal financial controls, fraud and information technology risks.

- Evaluation of expertise and experience of the chief financial officer and finance function
  - 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.
  - the committee has considered, and has satisfied itself of the appropriateness of the expertise and adequacy of resources of the finance function and experience of the senior members of management responsible for the financial function.

Independence of external auditors

The committee is satisfied that PricewaterhouseCoopers Inc. are independent of the group. This assessment was made after considering the following:

- confirmation from the external auditors that they, or their immediate family, do not hold any significant direct or indirect financial interest or have any material business relationship with Lewis. The external auditors also confirmed that they have internal monitoring procedures to ensure their independence.
- The auditors do not, other than in their capacity as external auditors or rendering permitted non-audit services, receive any remuneration or other benefits from the group.
- The auditor's independence was not impaired by the non-audit work performed having regard to the quantum of audit fees relative to the total fee base and the nature of the non-audit work undertaken.
- The auditor's independence was not prejudiced as a result of any previous appointment as auditor. In addition, an audit partner rotation process is in place in accordance with the relevant legal and regulatory requirements.
- The criteria specified for independence by the Independent Regulatory Board for Auditors.
- The audit firm and the designated auditor is accredited with the JSE.

The committee confirms it has functioned in accordance with its terms of reference for the 2013 financial year.

Hilton Saven
Chairman
Audit committee

20 May 2013

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 477 Lewis, 129 Best Home and Electric and 13 My Home 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.

Review of financial results and activities

The financial results and affairs of the group are reflected in the abridged consolidated financial statements set out on pages 81 to 89.

Segmental analysis

Segmental information is set out in the segmental report on page 86 of the abridged consolidated financial statements.

Share capital

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

Treasury shares

The group holds 9 216 928 (9.2%) of its own shares through its subsidiary, Lewis Stores Proprietary Limited.

In addition, the Lewis Employee Incentive Scheme Trust effectively holds 405 681 shares, all of which will be utilised to cover share awards granted to executives. Details have been set-out in note 8 and 18.3 to the audited consolidated financial statements.

Dividends

The following dividends have been declared or proposed for the financial year ended 31 March 2013:

	Dividend Per share	Date Declared	Payable
Interim - declared	212 cents	12 November 2012	21 January 2013
Final - proposed	302 cents	22 May 2013	22 July 2013
Total for the year	514 cents		

Notice is hereby given that a final gross cash dividend of 302 cents per share in respect of the year ended 31 March 2013 has been declared payable to holders of ordinary shares.

The number of shares in issue as of the date of declaration is 98 057 959.

The dividend has been declared out of income reserves and is subject to a dividend tax of 15%. The dividend for determining the dividend tax is 302 cents and the dividend tax payable is 45.3 cents for shareholders who are not exempt. No STC credits have been utilised. The net dividend for shareholders who are not exempt will therefore be 256.7 cents. The dividend tax rate may be reduced where the shareholder is tax resident in a foreign jurisdiction which has a Double Tax Convention with South Africa and meets the requirements for a reduced rate.

The company's tax reference number is 9551/419/15/4.

The following dates are applicable to this declaration:

Last date to trade "cum" dividend	: Friday 12 July 2013
Date trading commences "ex" dividend	: Monday 15 July 2013
Record date	: Friday 19 July 2013
Date of payment	: Monday 22 July 2013

Share certificates may not be dematerialised or rematerialised between Monday 15 July 2013 and Friday 19 July 2013, both days inclusive.

Directors

There were no changes to the board of directors during the year. In terms of the Memorandum of Incorporation of the company the following directors will retire and have offered themselves for re-election:

BJ van der Ross

ZBM Bassa

MSP Marutlulle

Company secretary

MG McConnell remained as company secretary throughout the year. The address of the company secretary is that of the registered office, 53A Victoria Road, Woodstock, 7925.

Directors' interests

At 31 March 2013 the directors' beneficial direct and indirect interest in the company's issued shares were as follows:

	2013		2012	
Director	**Direct**	**Indirect**	Direct	Indirect
D M Nurek	–	10 000	–	10 000
H Saven	–	2 940	–	2 940
A J Smart	319 070	–	319 070	–
J Enslin	20 000	44 856	–	39 848
L A Davies	141 185	37 725	96 144	34 812
Total	480 255	95 521	415 214	87 600

The following share awards have been made to directors:

J Enslin	262 499
L A Davies	202 691

Full details of the terms and conditions in relation to these share awards are set out in note 18.4 to the audited consolidated financial statements.

During the course of the year, no director had a material interest in any contract of significance with the company or any of its subsidiaries that could have given rise to a conflict of interest. No related party transaction in terms of the JSE Limited Listings Requirements took place between the group and its directors or their associates, other than remuneration for services rendered to the company as set out in note 18.4 to the audited consolidated financial statements.

Subsidiary companies

Details of the company's subsidiaries are set out on page 56 of the audited consolidated financial statements.

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

	2013	2012
	Rm	Rm
Profit	914.6	811.5
Losses	–	(1.6)

Borrowing powers

Borrowings were R 1 505.5 million at 31 March 2013 (2012: R1074.0 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.

INDEPENDENT AUDITOR'S REPORT

REPORT OF THE INDEPENDENT AUDITOR ON THE ABRIDGED CONSOLIDATED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF LEWIS GROUP LIMITED

The abridged consolidated financial statements, which comprise the abridged consolidated balance sheet as at 31 March 2013, and the abridged consolidated income statement, changes in equity and cash flows for the year then ended, and related notes, as set-out on page 81 to 89, are derived from the audited consolidated financial statements of Lewis Group Limited for the year ended 31 March 2013. We expressed an unmodified audit opinion on those consolidated financial statements in our report dated 22 May 2013.

The abridged consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the abridged consolidated financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of Lewis Group Limited and its subsidiaries.

Directors' responsibility for the abridged group financial statements

The company's directors are responsible for the preparation of an abridged version of the audited consolidated financial statements in accordance with the requirements of Section 8.57 of the JSE Limited Listings Requirements.

Auditor's responsibility

Our responsibility is to express an opinion on the abridged consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810, "Engagements to Report on Summary Financial Statements".

Opinion

In our opinion, the abridged consolidated financial statements derived from the audited consolidated financial statements of Lewis Group Limited for the year ended 31 March 2013 are consistent, in all material respects with those consolidated financial statements, in accordance with the requirements of Section 8.57 of the JSE Limited Listing Requirements.

The Other Matter paragraph in our audit report dated 22 May 2013 states that as part of our audit of the consolidated financial statements for the year ended 31 March 2013, we have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated financial statements. These reports are the responsibility of the respective preparers. The Other Matter paragraph states that, based on reading these reports, we have not identified material inconsistencies between these reports and the audited consolidated financial statements. The paragraph furthermore states that we have not audited these reports and accordingly do not express an opinion on these reports. The Other Matter paragraph does not have an effect on the abridged consolidated financial statements or our opinion thereon.

PricewaterhouseCoopers Inc.

Director: **Z. Abrahams**

Registered Auditor

Cape Town

Date: 22 May 2013

ABRIDGED CONSOLIDATED FINANCIAL STATEMENTS

Income statement for the year ended 31 March 2013

	Notes	GROUP 2013 Rm	2012 Rm
Revenue		5 187.6	4 857.3
Merchandise sales		2 470.3	2 365.4
Finance charges and initiation fees earned		1 082.6	1 055.4
Insurance revenue		994.7	868.5
Ancillary services		640.0	568.0
Cost of merchandise sales	3	(1 523.1)	(1 446.3)
Operating Costs		(2 416.9)	(2 271.9)
Employment costs	4	(792.0)	(732.9)
Administration and IT		(202.8)	(220.7)
Debtor costs	5	(539.6)	(522.3)
Marketing		(191.2)	(184.5)
Occupancy costs		(232.7)	(207.3)
Transport and travel		(185.2)	(177.9)
Depreciation		(55.1)	(48.5)
Other operating costs		(218.3)	(177.8)
Operating profit		1 247.6	1 139.1
Investment income		111.8	91.9
Profit before finance costs and taxation		1 359.4	1 231.0
Net finance costs		(96.3)	(63.2)
Interest paid		(105.2)	(82.2)
Interest received		6.9	3.8
Forward Exchange Contracts		2.0	15.2
Profit before taxation		1 263.1	1 167.8
Taxation	6	(355.7)	(367.2)
Net profit attributable to ordinary shareholders		907.4	800.6
Statement of Comprehensive Income			
Net profit for the year		907.4	800.6
Fair value adjustments to available-for-sale investments		103.7	72.9
Disposal of available-for-sale investments		(15.3)	(17.2)
Foreign currency translation reserve		6.6	1.5
Other comprehensive income		95.0	57.2
Total comprehensive income for the year attributable to equity shareholders		1 002.4	857.8

Income statement for the year ended 31 March 2013

	GROUP	
	2013	2012
1. Weighted Average No. of Shares		
Weighted average	88 749	88 463
Diluted weighted average	89 612	89 446
2. Headline Earnings (Rm)		
Attributable earnings	907.4	800.6
Profit on disposal of assets and investments	(17.3)	(19.9)
Headline earnings	890.1	780.7
3. Earnings per Share (cents)		
Earnings per share	1 022.4	905.0
Diluted earnings per share	1 012.6	895.1
4. Headline Earnings per Share (cents)		
Headline earnings per share	1 002.9	882.5
Diluted headline earnings per share	993.3	872.8
5. Dividends per share (cents)		
Dividends paid per share		
Final dividend 2012 (2011)	270.0	207.0
Interim dividend 2013 (2012)	212.0	172.0
	482.0	379.0
Dividends declared per share		
Interim dividend 2013 (2012)	212.0	172.0
Final dividend 2013 (2012)	302.0	270.0
	514.0	442.0

Balance sheet as at 31 March 2013

		GROUP	
	Notes	2013 Rm	2012 Rm
Assets			
Non-current assets			
Property, plant and equipment		332.6	311.9
Deferred taxation		0.6	16.1
Retirement benefit assets		6.0	–
Insurance investments	7	1 238.3	1 005.3
		1 577.5	1 333.3
Current assets			
Inventories		305.8	281.4
Trade and other receivables	8	4 840.9	4 064.5
Insurance investments	7	465.9	373.3
Cash on hand and deposits		59.5	77.9
		5 672.1	4 797.1
Total assets		7 249.6	6 130.4
Equity and liabilities			
Capital and reserves			
Share capital and premium		88.4	95.4
Other reserves		397.8	277.9
Retained earnings		4 348.4	3 901.3
		4 834.6	4 274.6
Non-current liabilities			
Long-term interest bearing borrowings		1 250.0	650.0
Deferred taxation		149.4	111.4
Retirement benefits		76.3	63.6
		1 475.7	825.0
Current liabilities			
Trade and other payables		211.7	237.1
Reinsurance and insurance liabilities		472.1	348.7
Taxation		–	21.0
Short-term interest-bearing borrowings		255.5	424.0
		939.3	1 030.8
Total equity and liabilities		7 249.6	6 130.4

Statement of changes in equity for the year ended 31 March 2013

	Notes	GROUP 2013 Rm	2012 Rm
Share capital and premium			
Opening balance		95.4	93.5
Cost of own shares acquired (treasury shares)		(40.1)	-
Share awards to employees		33.1	1.9
		88.4	95.4
Other reserves			
Opening balance		277.9	207.1
Other comprehensive income for the year		95.0	57.2
Share-based payment		22.1	19.0
Other movements		2.8	(5.4)
		397.8	277.9
Retained Earnings			
Opening balance		3 901.3	3 427.5
Net profit attributable to ordinary shareholders		907.4	800.6
Distribution to shareholders		(428.1)	(335.5)
Share awards to employees		(30.4)	(1.9)
Other movements		(1.8)	10.6
		4 348.4	3 901.3
Balance as 31 March 2013		4 834.6	4 274.6

Cash flow statement for the year ended 31 March 2013

	GROUP	
	2013 Rm	2012 Rm
CASH FLOW FROM OPERATING ACTIVITIES		
Cash flow from trading	1 526.6	1 358.3
Change in working capital	(893.8)	(385.9)
Cash generated from operations	632.8	972.4
Interest and dividends received	100.5	76.6
Interest paid	(103.2)	(67.0)
Taxation paid	(358.4)	(377.4)
	271.7	604.6
CASH UTILISED IN INVESTING ACTIVITIES		
Net additions to insurance investments	(183.8)	(194.1)
Acquisition of property, plant and equipment	(85.7)	(87.8)
Proceeds on disposal of property, plant and equipment	12.4	10.2
	(257.1)	(271.7)
CASH FLOW FROM FINANCING ACTIVITIES		
Dividends paid	(428.1)	(335.5)
Increase in long-term borrowings	600.0	250.0
(Decrease) / increase in short-term borrowings	(200.0)	50.0
Purchase of own shares	(40.1)	-
Proceeds on sale of own shares	3.7	5.2
	(64.5)	(30.3)
Net (decrease) / increase in cash and cash equivalents	(49.9)	302.6
Cash and cash equivalents at the beginning of the year	(46.1)	(348.7)
Cash and cash equivalents at the end of the year	(96.0)	(46.1)
ANALYSIS OF BORROWINGS AND BANKING FACILITIES		
Borrowings		
Long-term	1 250.0	650.0
Short-term	100.0	300.0
	1 350.0	950.0
Cash and cash equivalents		
Short-term facilities utilised	155.5	124.0
Cash on hand	(59.5)	(77.9)
	96.0	46.1
Net borrowings	1 446.0	996.1
Unutilised facilities	704.0	753.9
Total banking facilities	2 150.0	1 750.0

Segmental report for the year ended 31 March 2013

Reportable Segment	Lewis Rm	Best Home and Electric Rm	My Home Rm	Group Rm
2013				
Segment income statement				
Total revenue to external customers				
Merchandise sales	2 039.7	351.0	79.6	2 470.3
Other revenue	2 279.1	385.9	52.3	2 717.3
	4 318.8	736.9	131.9	5 187.6
Cost of merchandise sales	(1 257.1)	(217.2)	(48.8)	(1 523.1)
Operating costs	(2 014.0)	(334.4)	(68.5)	(2 416.9)
Segment operating profit	1 047.7	185.3	14.6	1 247.6
Segment operating margin	24.3%	25.1%	11.1%	24.0%
Segment assets (1)	4 230.9	675.9	120.3	5 027.1
Capital expenditure	76.1	8.3	1.3	85.7
Depreciation	48.8	5.2	1.1	55.1
2012				
Segment income statement				
Total revenue to external customers				
Merchandise sales	1 971.0	318.0	76.4	2 365.4
Other revenue	2 112.8	335.5	43.6	2 491.9
	4 083.8	653.5	120.0	4 857.3
Cost of merchandise sales	(1 196.3)	(203.1)	(46.9)	(1 446.3)
Operating costs	(1 902.4)	(304.8)	(64.7)	(2 271.9)
Segment operating profit	985.1	145.6	8.4	1 139.1
Segment operating margin	24.1%	22.3%	7.0%	23.5%
Segment assets (1)	3 624.5	535.3	104.6	4 264.4
Capital expenditure	75.9	10.7	1.2	87.8
Depreciation	43.4	4.2	0.9	48.5

(1) Segment assets include net instalment sale and loan receivables of R 4 721.3 million (2012: R3 983.0 million) and inventory of R 305.8 million (2012: R281.4 million).

Geographical	South Africa Rm	BLNS(*) Rm	Total Rm
2013			
Revenue	4 525.8	661.8	5 187.6
Capital expenditure	77.0	8.7	85.7
2012			
Revenue	4 265.3	592.0	4 857.3
Capital expenditure	81.6	6.2	87.8

(*) Botswana, Lesotho, Namibia and Swaziland

Notes to the abridged consolidated financial statements

for the year ended 31 March 2013

1. Basis of Reporting

The information contained in these abridged financial statements has been extracted from the group's 2013 audited annual financial statements which has been prepared in accordance with the recognition and measurement principles of International Financial Accounting Standards (IFRS) including IAS34 (Interim Financial Reporting), and in compliance with the Companies Act of 2008.

The group's annual financial statements and these abridged financial statements have been audited by the group's external auditors, PricewaterhouseCoopers Inc. and their unqualified opinion on both such financial statements are available for inspection at the company's registered office.

Changes to accounting policies and disclosures arising from the adoption of new standards, amendments and interpretations to standards effective for the current year are disclosed in note 2.

2. Changes in Accounting Policies and Disclosures

2.1 Reclassification

The following reclassifications have been made:

Income Statement:

Initiation fee income has been reclassified from ancillary services to finance charges earned. This reclassification has no impact on total revenue for both the current and comparative period.

Balance Sheet:

Insurance provisions and amounts due to reinsurers have been reclassified from trade and other payables to reinsurance and insurance liabilitiies on the face of the balance sheet.

In terms of IAS 8 (Accounting Policies), the comparative information has been restated and the effect on the financial statements is as follows:

	Previously reported	Currently reported
Income Statement:		
Finance charges and initiation fees earned	908.2	1 055.4
Ancillary services	715.2	568.0
Revenue	4 857.3	4 857.3
Balance Sheet:		
Trade and other payables	585.8	237.1
Reinsurance and insurance liabilities	–	348.7

2.2 Other standards, interpretations, revisions and amendments effective for the current year

The following revisions and amendments to standards and interpretations relevant to the group have become effective for the current financial reporting year, but have had no material impact on the group's results, financial position or disclosure:

IFRS 7: Financial Instruments: additional disclosures regarding derecognised financial assets

IAS 12: Income taxes amendments relating to investment properties.

3. Cost of Merchandise Sales

Purchases	**1 547.5**	1 471.4
Movement in inventory	**(24.4)**	(25.1)
Cost of merchandise sales	**1 523.1**	1 446.3
Merchandise Gross Profit	**947.2**	919.1
Gross profit %	**38.3%**	38.9%

Notes to the abridged consolidated financial statements
for the year ended 31 March 2013

		GROUP	
		2013	2012
		Rm	Rm
4.	**Employment Costs**		
	Salaries, wages, commissions and bonuses	**707.8**	662.4
	Retirement benefit costs	**53.6**	46.5
	Share-based payments	**22.1**	19.0
	Other employment costs	**8.5**	5.0
		792.0	732.9
5.	**Debtor Costs**		
	Bad debts, repossession losses and bad debt recoveries	**417.6**	405.4
	Movement in impairment provision	**122.0**	116.9
		539.6	522.3
	Debtor cost as a % of net debtors	**9.4%**	10.8%
6.	**Taxation**		
	6.1 Taxation charge		
	Normal taxation	**337.4**	316.6
	Deferred taxation	**18.3**	17.9
	Secondary Tax on Companies	**–**	32.7
	Taxation per income statement	**355.7**	367.2
6.2	**Tax rate reconciliation**		
	Profit before taxation	**1 263.1**	1 167.8
	Taxation calculated at a tax rate of 28% (2012: 28%)	**353.7**	327.0
	Differing tax rates in foreign countries	**6.6**	7.2
	Disallowances and exemptions	**0.5**	(0.2)
	Prior years	**(5.1)**	0.5
		355.7	334.5
	STC	**–**	32.7
	Taxation per income statement	**355.7**	367.2
	Tax rate, excluding STC	**28.2%**	28.6%
	Effective tax rate	**28.2%**	31.4%
7.	**Insurance investments - availabl- for-sale**		
	Listed		
	Listed shares	**583.3**	442.9
	Fixed income securities	**655.0**	562.4
	Unlisted		
	Money market	**465.9**	373.3
		1 704.2	1 378.6
	Analysed as follows:		
	Non-current	**1 238.3**	1 005.3
	Current	**465.9**	373.3
		1 704.2	1 378.6

Investments are classified as available-for-sale and are reflected at fair value. Changes in fair value are reflected in the statement of comprehensive income.

	GROUP 2013 Rm	GROUP 2012 Rm
8. Trade and other receivables		
Instalment sale and loan receivables	6 958.3	5 871.1
Provision for unearned finance charges and unearned maintenance income	(280.8)	(280.9)
Provision for unearned initiation fees	(129.8)	(109.8)
Provision for unearned insurance premiums	(829.2)	(622.2)
Net instalment sale and loan receivables	5 718.5	4 858.2
Provision for impairment	(997.2)	(875.2)
	4 721.3	3 983.0
Other receivables	119.6	81.5
	4 840.9	4 064.5

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

The average effective interest rate on instalment sale and loan receivables is 21.5% (2012: 22.3%) and the average term of the sale is 32.7 months (2012: 28.3 months).

8.1 Receivables Analysis

The company assesses each customer individually on a monthly basis and categorises customers into 13 payment categories. This assessment is integral to the calculation of the debtors' impairment provision and incorporates both payment behaviour and the age of the account. The 13 payment categories have been summarised into four main groupings of customers.

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

		No. of Customers 2013	No. of Customers 2012		Distribution of Impairment Provision 2013	Distribution of Impairment Provision 2012
Satisfactory paid: Customers fully up to date including those who have paid 70% or more of amounts due over the contract period. The provision in this category results from an *in duplum* provision.	No. %	478 093 69.4%	491 478 72.1%	Rm %	27.5 2.8%	35.1 4.0%
Slow payers: Customers fully up to date including those who have paid 65% to 70% of amounts due over the contract period. The provision in this category ranges from 12% to 79% of amounts due and includes an *in duplum* provision (2012: 7% to 72%).	No. %	58 155 8.5%	55 791 8.2%	Rm %	111.4 11.2%	104.1 11.9%
Non-performing customers Customers who have paid 55% to 65% of amounts due over the period of the contract. The provision in this category ranges from 23% to 90% of amounts due (2012: 19% to 86%).	No. %	55 202 8.0%	45 978 6.7%	Rm %	177.9 17.8%	137.2 15.7%
Non-performing customers Customers who have paid 55% or less of amounts due over the period of the contract period of the contract. The provision in this category ranges from 33% to 100% of amounts due (2012: 28% to 100%).	No. %	97 093 14.1%	88 265 13.0%	Rm %	680.4 68.2%	598.8 68.4%
Total	No.	688 543	681 512	Rm	997.2	875.2
Debtors impairment provision as a % of net debtors					17.4%	18.0%

Shareholders Information

Shareholders spread as at 31 March 2013	No. of shareholders		Number of shares	
	Total	%	Total	%
1 - 1 000 shares	3 000	62.91	1 348 052	1.37
1 001 - 10 000 shares	1 366	28.66	4 210 688	4.30
10 001 - 100 000 shares	286	6.00	9 214 437	9.40
100 001 - 1 000 000 shares	99	2.08	31 408 328	32.03
1 000 001 shares and over	17	0.36	51 876 454	52.90
Total	4 768	100.01	98 057 959	100.00
Distribution of shareholders as at 31 March 2013				
Public	4 758	99.8	87 748 826	89.49
Unit Trusts / Mutual Funds			34 515 721	35.20
Pension Funds			24 963 772	25.46
Insurance Companies			7 604 997	7.76
Other			20 664 336	21.07
Non-public	10	0.2	10 309 133	10.51
Lewis Stores (Pty) Ltd	1	0.02	9 216 928	9.40
Lewis Employee Incentive Scheme Trust	1	0.02	405 681	0.41
Directors:				
Lewis Group Limited	5	0.10	575 776	0.59
Lewis Stores (Pty) Ltd	3	0.06	110 748	0.11
	4 768	100.00	98 057 959	100.00

Major shareholdings as at 31 March 2013
According to the company's register of disclosures of beneficial interests made by registered shareholders acting in a nominee capacity, and the disclsoures made by fund managers in terms of section 56 of the Companies Act of 2008, the following entities owned in excess of 3% of the company's shares as at 31 March 2013:

Beneficial shareholders	
Government Employees Pension Fund	18.76
Lewis Stores Proprietary Limited	9.40
By Fund Manager	
Public Investment Corporation	15.07
Sanlam Investment Managers	10.41
Old Mutual Asset Managers	7.79
Abax Investments	5.29
Dimensional Fund Advisors	4.05
ABSA Asset Management	3.93
Royce and Associates Inc.	3.20
Geographical analysis of shareholders	
Beneficial shareholders	
South Africa	67.92
North America	16.26
Europe	7.55
United Kingdom	5.32
Rest of World	2.95
	100.00
By Fund Manager	
South Africa	68.77
North America	15.44
United Kingdom	7.85
Europe	2.81
Rest of World	5.13
	100.00

Shareholder calendar

Financial year-end	31 March 2013
Final profit announcement	22 May 2013
Final dividend declared	22 May 2013
Intergrated annual report published	28 June 2013
Last day to trade "cum" dividend	12 July 2013
Date trading commences "ex" dividend	15 July 2013
Record date	19 July 2013
Date of dividend payment	22 July 2013
Record date for voting at the annual general meeting	2 August 2013
Annual general meeting	16 August 2013
Interim profit announcement	11 November 2013

NOTICE OF ANNUAL GENERAL MEETING

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 ninth annual general meeting of shareholders ("AGM") of Lewis Group Limited for the year ended 31 March 2013 will be held at Lewis Group head office, 53A Victoria Road, Woodstock, Cape Town at 08:30 on Friday, 16 August 2013. **Registration will start at 08:00.**

The board of directors of the Company determined that the record date for the purpose of determining which shareholders of the Company are entitled to participate in and vote at the AGM is 2 August 2013.

The purpose of the annual general meeting is for the following business to be transacted:

1. Presentation of Directors' Report

2. Presentation of Audit Committee Report

3. Presentation of Social, Ethics and Transformation Committee Report

4. Ordinary resolution number 1

Adoption of annual financial statements

Explanatory Note:

In terms of the Companies Act No. 71 of 2008, as amended ("the Companies Act"), the financial statements will be presented for adoption by shareholders. The purpose of this ordinary resolution is to adopt the annual financial statements of the company and its subsidiaries. A summary of such annual financial statements is set out on pages 81 to 89 of the document of which this notice of annual general meeting forms part (the integrated annual report). This summary is not exhaustive and the complete annual financial statements of the company and its subsidiaries should be read in their entirety for a full appreciation of their contents. The complete annual financial statements of the company and its subsidiaries are available for inspection at the company's registered office, and an electronic copy is available on the company's website (www.lewisgroup.co.za). Alternatively, shareholders can request that a complete copy of the annual financial statements of the Company and its subsidiaries be posted or e-mailed to them by contacting Diane Rafferty on diane.rafferty@lewisgroup.co.za.

"Resolved that the audited annual financial statements of the Company and its subsidiaries for the year ended 31 March 2013 accompanying this notice be accepted and adopted."

5 Ordinary resolution number 2

Election of directors

Explanatory Note

The election of each director who, among other things, retires by rotation is required at the Company's AGM. The election will be conducted by a series of separate votes in respect of each candidate.

ZBM Bassa, MSP Marutlulle and BJ van der Ross offer themselves for re-election.

Brief CV's of the directors are on pages 24 to 25.

Election of Ms ZBM Bassa as director

5.1 "Resolved that Zarina Bassa be and is hereby elected as director of the Company."

Election of Ms MSP Marutlulle as director

5.2 "Resolved that Sizakele Marutlulle be and is hereby elected as director of the Company".

Election of Mr BJ van der Ross as director

5.3 "Resolved that Ben van der Ross be and is hereby elected as director of the Company".

6. **Ordinary resolution number 3**

Election of members of the audit committee

Explanatory Note

In terms of the Companies Act, at each annual general meeting an audit committee comprising at least three members must be elected. It is proposed that the following members of the audit committee be re-elected for the ensuing year. The election of each member of the audit committee will be voted on separately.

Brief CV's of the members are on pages 24 to 25.

Election of Ms ZBM Bassa as member of the audit committee.

6.1 "Resolved that Zarina Bassa be and is hereby elected as a member of the audit committee".

Election of Mr H Saven as member of the audit committee.

6.2 "Resolved that Hilton Saven be and is hereby elected as a member of the audit committee".

Election of Mr BJ van der Ross as member of the audit committee.

6.3 "Resolved that Ben van der Ross be and is hereby elected as a member of the audit committee".

7. **Ordinary resolution number 4**

Approval of reappointment of auditors

Explanatory Note

In terms of the Companies Act, the Company must each year at its AGM appoint an external auditor. The group's current external auditor is PricewaterhouseCoopers Inc., which has indicated that Mr Zuhdi Abrahams being a director of the firm, a registered auditor, and who is accredited with the JSE Limited in accordance with the JSE Listings Requirements will undertake the audit. The Group's audit committee has recommended that the firm and the designated auditor be re-appointed for the ensuing period.

"Resolved that the firm PricewaterhouseCoopers Inc and Zuhdi Abrahams as the designated auditor be re-appointed for the ensuing year."

8. **Ordinary resolution number 5**

Issue of shares to the Lewis Employee Incentive Scheme Trust

Explanatory Note

The reason for this ordinary resolution is to authorise the Company to issue shares to the Lewis Employee Incentive Scheme Trust for purposes of the Lewis Co-Investment Scheme and the Lewis Executive Performance Share Scheme. The effect of this ordinary resolution is that the Company will be authorised to issue 2 300 000 shares to the Lewis Employee Incentive Scheme Trust for purposes of the Lewis Co-Investment Scheme and the Lewis Executive Performance Share Scheme.

"Resolved that the Company be and is hereby authorised, by way of a specific authority in accordance with the JSE Listings Requirements, to issue from time to time up to a maximum of 2 300 000 ordinary shares in the authorised, but unissued ordinary share capital of the Company, to the Lewis Employee Incentive Scheme Trust, so as to enable the Trust to fulfil its obligations in terms of the Lewis Co-Investment Scheme and the Lewis Executive Performance Share Scheme from time to time."

In terms of the JSE Listings Requirements, the passing of this ordinary resolution is achieved by the attainment of a 75% majority of the votes cast in favour of such resolution by all members present in person or by proxy or represented at the annual general meeting. The two schemes in question satisfy the requirements of Section 97 of the Companies Act and therefore it is not necessary to authorise this issue by way of a special resolution in terms of Section 41 of the Companies Act.

9. **Ordinary resolution number 6**

Shareholders' authorisation of Domestic Medium Term Note Programme and issues of Notes

Explanatory note

The reason for this ordinary resolution is to authorise the Company to establish a domestic medium term note programme ("the Programme") in order to raise funding for the Group other than by way of loan finance from financial institutions, and to issue Notes ("Notes") in terms of the Programme up to an aggregate amount of R2 billion.

The Memorandum of Incorporation of the Company provides that before the Company may issue securities (which term includes debentures and therefore also debt instruments in the form of the Notes) other than those referred to in Sections 41(1) and 41(3) of the Companies Act, 2008 and in JSE Listings Requirement 5.50, the prior approval of the shareholders of the Company is required by way of an ordinary resolution. Once adopted, this ordinary resolution will constitute such approval, and all future issues of Notes in terms of the Programme shall have been duly approved by the shareholders.

"Resolved that the Company be and is hereby authorised to negotiate, conclude and implement a domestic medium term note programme ("the Programme") (including all agreements and steps associated with such Programme) in terms of which the Company, or any other entity in the Group, may raise funding from the public from time to time through the issue of one or more tranches of Notes up to an aggregate amount of R2 billion pursuant to the terms and conditions of the Programme, and the Board is hereby authorised to do all things necessary to negotiate, conclude and implement such Programme (including resolving to issue Notes from time to time in accordance with the terms and conditions of the Programme)."

10. Non-binding advisory vote number 7

Approval of the company's remuneration policy

Explanatory Note

In terms of principle 2.27 of the King Report on Corporate Governance in South Africa, 2009 ("King III Report") , the Company's remuneration policy should be tabled to shareholders for a non-binding advisory vote at the AGM. This vote enables shareholders to express their views on the remuneration policies adopted and on their implementation. Accordingly, the shareholders are requested to endorse the Company's remuneration policy on pages 50 to 55 in the remuneration report, by way of a non-binding advisory vote.

"Resolved that the company's remuneration policy accompanying this notice be accepted and approved."

11. Special resolution number 1

Approval of directors' fees

Explanatory Note

In terms of Section 66(8) of the Companies Act the company may pay remuneration to its directors for their service as directors. Section 66 (9) requires the remuneration to be paid in accordance with a special resolution approved by shareholders within the previous two years.

The effect of the special resolution is the directors will be entitled to the fees paid for the period from 1 July 2013 until 30 June 2014, such fees to be paid in instalments at the end of each quarter. The fees include an annual increase of approximately 8.0%.

"Resolved that the fees of the directors as reflected below be approved for the period from 1 July 2013 until 30 June 2014:

Chairman	R475 000
Director	R227 000
If a member of the Audit Committee the following additional amount:	
Chairman	R233 000
Member	R100 000
If a member of the Risk Committee the following additional amount:	
Chairman	R110 000
Member	R69 000
If a member of the Remuneration Committee the following additional amount:	
Chairman	R110 000
Member	R55 000
If a member of the Nomination Committee the following additional amount:	
Chairman	R75 000
Member	R32 000
If a member of the Social, Ethics and Transformation Committee the following additional amount:	
Chairman	R110 000
Member	R55 000

Invitation Fee:

All non-executive directors who attend the committee meetings by invitation at the request of the board shall be eligible to receive the same fee as if they were a member of the committee.

12. Special resolution number 2

Shareholders' general authorisation of financial assistance

Explanatory Note

The reason for this special resolution is to provide general authority, in terms of Sections 44(3)(ii) and 45(3)(a)(ii) of the Companies Act, for the Company to provide financial assistance to its subsidiaries and other related and inter-related companies and corporations.

Sections 44 and 45 of the Companies Act provides, *inter alia*, that any financial assistance to related or inter-related companies and corporations, including, inter alia, to subsidiaries of the company, must be provided only pursuant to a special resolution of the shareholders, adopted within the previous two years, which approved such assistance either for the specific recipient, or generally for a category of potential recipients, and the specific recipient falls within that category, and the board of directors must be satisfied that:

- immediately after providing the financial assistance, the company would satisfy the solvency and liquidity test, as defined in Section 4 of the Companies Act;
- the terms under which the financial assistance is proposed to be given are fair and reasonable to the company; and
- any conditions or restrictions in respect of the granting of financial assistance set out in the Company's memorandum of incorporation have been satisfied.

The Company, when the need arises, provides loans to and /or guarantees loans or other obligations of subsidiaries. The Company requires the ability to continue providing financial assistance, if and when necessary, to its current and future subsidiaries and/or any other company or corporation that is or becomes related or inter-related, in accordance with Sections 44 and 45 of the Companies Act.

In the circumstances and in order to, *inter alia*, ensure that the Company's subsidiaries and other related and inter-related companies and corporations have access to financing and/or financial backing from the Company, it is necessary to obtain the approval of shareholders, as set out in special resolution number 2.

The passing of this special resolution will have the effect of allowing the directors of the Company to authorise the Company to provide direct or indirect financial assistance to the Company's subsidiaries and other related and inter-related companies and corporations to allow such companies or corporations to have access to financing and /or financial backing from the Company.

"Resolved that the board of directors of the Company may, subject to compliance with the requirements of the company's Memorandum of Incorporation and the Companies Act, each as presently constituted and as amended from time to time, authorise the Company to provide direct or indirect financial assistance by way of a loan, guarantee, the provision of security or otherwise, to any of its present or future subsidiaries and /or any other company or corporation that is or becomes related or inter-related to the Company for any purpose or in connection with any matter. The financial assistance may be provided at any time during the period commencing on the date of the adoption of this resolution and ending two (2) years after such date."

13. Special resolution number 3

General authority to repurchase shares

Explanatory note

The reason for special resolution number 3 is to grant the directors of the company and subsidiaries of the company a general authority in terms of the Companies Act and the JSE Listings Requirements to acquire no more than 3% of the Company's ordinary shares in aggregate, subject to the terms and conditions set out in the resolution. The directors require that such general authority should be implemented in order to facilitate the repurchase of the Company's ordinary shares in circumstances where the directors consider this to be appropriate and in the best interests of the Company and its shareholders.

To consider and, if deemed fit, to pass, with or without modification, the following special resolution:

"Resolved that the Company hereby approves, as a general approval contemplated in Sections 46 and 48 of the Companies Act, the acquisition by the Company or any of its subsidiaries from time to time of the issued ordinary 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 Memorandum of Incorporation, the provisions of the Companies

Act and the Listings Requirements as presently constituted and which may be amended from time to time, and provided that:

- acquisitions by the Company and its subsidiaries of shares in the capital of the Company may not, in the aggregate, exceed in any one financial year 3% (three per cent) of the Company's issued ordinary share capital of the class of the repurchased shares from the date of the grant of this general authority;
- any such repurchase shall be implemented through the order book operated by the JSE trading system, without any prior understanding or arrangement between the Company and the counterparty;
- authorisation thereto being given by the Memorandum of Incorporation;
- this general authority shall only be valid until the Company's next annual general meeting, provided that it shall not extend beyond 15 (fifteen) months from the date of passing of this special resolution:
- a press announcement will be published as soon as the company and /or its subsidiaries has repurchased ordinary shares constituting, on a cumulative basis, 3% (three per cent) of the initial number of ordinary shares, and for each 3% (three per cent) in aggregate of the initial number of shares repurchased thereafter, containing full details of such repurchases;
- in determining the price at which the Company's shares are acquired by the company or its subsidiaries in terms of this general authority, the maximum premium at which such shares may be acquired will be 10% (ten per cent) of the weighted average of the market price at which such shares are traded on the JSE for the five (5) business days immediately preceding the date the repurchase transaction is effected;
- the Company's sponsor has confirmed the adequacy of the Company's and the group's working capital for purposes of undertaking the repurchase of shares in writing to the JSE when the Company entered the market to proceed with the repurchase;
- the Company and/or its subsidiaries do not repurchase securities during a prohibited period as defined in paragraph 3.67 of the JSE Listings Requirements unless they have in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed and full details of the programme have been disclosed in an announcement on SENS prior to the commencement of the prohibited period; and
- the Company only appoints one agent at any point in time to effect repurchases on its behalf."

When any such repurchase of the maximum number of ordinary shares in terms of the aforegoing general authority is made, the directors will give consideration to the following issues and at the time the repurchase is made, the directors must be of the opinion that:

- the Company and the Group will be able in the ordinary course of business to pay its debts for a period of 12 (twelve) months after the date of the repurchase;
- the assets of the Company and Group are to be in excess of the liabilities of the Company and group for a period of 12 (twelve) months after the date of the repurchase fairly valued in accordance with the accounting policies used in the audited financial statements for the year ended 31 March 2013;
- the share capital and reserves of the Company and Group are adequate for ordinary business purposes for a period of 12 (twelve) months after the date of the repurchase;
- the working capital of the Company and the group are adequate for ordinary business purposes for a period of 12 (twelve) months after the date of this notice of the AGM; and
- having applied the solvency and liquidity test set out in Section 4 of the Companies Act, that the Company will satisfy the solvency and liquidity test immediately after completing the proposed repurchase.

The following additional information, some of which may appear elsewhere in the annual report of which this notice forms part, is provided in terms of the JSE Listings Requirements for purposes of this general authority:

Directors and management – pages 24,25 and 30.

Major beneficial shareholders – page 90.

Directors' interests in ordinary shares – page 55.

Share capital of the Company – page 28 of the full audited consolidated financial statements.

Update on directors' interests in terms of Section 7B20 of the JSE Listings Requirements

The following statements reflect the transactions from 31 March 2013 to the date of this notice.

- On 22 May 2013, The Nurek Family Trust of which DM Nurek is a trustee and a discretionary beneficiary, acquired 10 000 ordinary shares for a total consideration of R576 090.
- On 23 May 2013, The Mancraig Family Trust of which H Saven is a trustee and a discretionary beneficiary, acquired 3 500 ordinary shares for a total consideration of R219 625.
- On 7 June 2013, share awards in terms of the Lewis Executive Performance Scheme and the Lewis Co-Investment Scheme vested as follows:

Name	Number of shares vested	Implied value
J Enslin	62 521	R3 895 059
LA Davies	53 251	R3 317 537

- On 7 June 2013, J Enslin and LA Davies sold ordinary Shares in order to settle their tax liability on awards vested and to rebalance their personal portfolios.

Name	Number of shares sold	Consideration
J Enslin	66 976	R4 145 433
LA Davies	30 000	R1 856 829

- As at the date of this notice the direct and indirect beneficial interests of the directors are as follows.

Name	Direct Beneficial Interests	Indirect Beneficial Interests
DM Nurek	–	20 000
H Saven	–	6 440
AJ Smart	319 070	–
J Enslin	30 000	30 401
LA Davies	177 490	24 671
Total	526 560	81 512

Litigation statement

In terms of Section 11.26 of the JSE Listings Requirements, the directors, whose names appear in the integrated annual report of which this notice forms part, are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or had in the recent past, being at least the previous 12 (twelve) months, a material effect on the Group's financial position.

Directors' responsibility statement

The directors, whose names appear in the integrated annual report, collectively and individually accept full responsibility for the accuracy of the information pertaining to this special resolution 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 special resolution contains all information.

Material changes

Other than the facts and developments reported on in the integrated annual report, there have been no material changes in the affairs or financial position of the group since the date of signature of the audit report and up to the date of this notice.

14. Ordinary resolution number 8

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."

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

General instructions and information

1. Unless otherwise specifically provided in this notice of AGM, for any of the ordinary resolutions to be adopted, 50% of the voting rights plus 1 vote exercised on each such ordinary resolution must be exercised in favour thereof. For any special resolutions to be adopted, 75% of the voting rights plus 1 vote exercised on each special resolution must be exercised in favour thereof.
2. In accordance with Section 63(1) of the Companies Act, participants at the AGM will be required to provide proof of identification to the reasonable satisfaction of the chairman of the AGM and must accordingly provide a copy of their identity document, passport or drivers' licence at the AGM for verification.
3. The Company intends to make provision for shareholders of the Company, or their proxies, to participate in the AGM by way of electronic communication. Should you wish to participate in the AGM by way of electronic communication, you are required to give notice of such proposed participation to the Company at its registered office by no later than 12:00 on 2 August 2013. Such notice must be accompanied by the following:
   a. if the shareholder is an individual, a certified copy of his identity document and/or passport;
   b. if the shareholder is not an individual, a certified copy of the resolution adopted by the relevant entity authorising the representative to represent the shareholder at the AGM and a certified copy of the authorised representative's identity document and/or passport;
   c. a valid e-mail address and/or facsimile number for the purpose of receiving notice of the manner in which the electronic participation will be conducted.

   If you provide the Company with the aforesaid notice and documents, the Company shall use its reasonable endeavours to notify you of the relevant details of the electronic communication through which you can participate in the AGM.
4. All shareholders are encouraged to attend, speak and vote at the AGM and are entitled to appoint a proxy to attend, speak and vote at the meeting in place of the shareholder. The proxy duly appointed to act on behalf of a shareholder, need not also be a shareholder of the Company.
5. On a show of hands, every shareholder of the company present in person or represented shall have one vote only. On a poll, every shareholder present in person, by proxy or represented shall have one vote for every share held.
6. 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 AGM; alternatively
   - you may appoint a proxy to represent you at the AGM by completing the attached form of proxy and, for administrative reasons, 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 48 hours prior to the time appointed for the holding of the meeting; and/or
   - you may participate in the AGM by way of electronic participation in accordance with paragraph 3 above.
7. 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 Limited'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 participate in the AGM (either by being physically present at the meeting or by way of electronic participation in accordance with paragraph 3 above) 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 AGM 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 AGM 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 AGM (either by being physically present at the meeting or by way of electronic participation in accordance with paragraph 3 above) or by completing the attached form of proxy in accordance with the instructions thereon and for administrative purposes, 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, for administrative reasons, not less than 48 hours prior to the time appointed for the holding of the meeting.

8 Shareholders of the Company that are companies, that wish to participate in the AGM, may authorise any person to act as its representative at the AGM.

By order of the Board

MG McConnell

Company secretary

13 June 2013

NOTES

PROXY FORM

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, 16 August 2013 at 08:30 ('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 CSDP's or brokers (or their nominees) registered in the Company's sub-register as the holder of dematerialised ordinary shares.

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. ______________________________ 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 or postponement 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 Adoption of annual financial statements			
Ordinary resolution 2.1 Election of Ms. ZBM Bassa as director			
Ordinary resolution 2.2 Election of Ms. M S P Marutlulle as director			
Ordinary resolution 2.3 Election of Mr. B J van der Ross as director			
Ordinary resolution 3.1 Election of Ms. ZBM Bassa as a member of the audit committee			
Ordinary resolution 3.2 Election of Mr. H Saven as a member of the audit committee			
Ordinary resolution 3.3 Election of Mr. BJ van der Ross as a member of the audit committee			
Ordinary resolution number 4 Approval of reappointment of auditors			
Ordinary resolution number 5 Issue of shares to the Lewis Employee Incentive Scheme Trust			
Ordinary resolution number 6 Shareholders' authorisation of Domestic Medium Term Note Programme and issues of Notes			
Non-binding advisory vote number 7 Approval of the company's remuneration policy			
Special resolution number 1 Approval of directors' fees			
Special resolution number 2 General approval to provide financial assistance			
Special resolution number 3 General authority to repurchase shares			
Ordinary resolution number 8 Directors' authority to implement company resolutions			

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 ____________________ 2013

Signature/s ______________________________

(Authority of signatory to be attached of applicable-see instruction overleaf)

Assisted by ______________________________

(where applicable)

Telephone number: ______________________________

Please read the notes on reverse side.

ince

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 of 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. Proxy forms should 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, for administrative reasons, by no later than 10:00 on Wednesday, 14 August 2013.

5. Documentary evidence establishing the authority of a person signing this proxy form in a representative capacity must be attached to this proxy form unless previously recorded by the transfer secretaries or waived by the chairman of the annual general meeting. CSDPs or brokers registered in the company's sub-register voting on instructions from owners of shares registered in the Company's sub-sub-register, are requested that they identify the owner in the sub-sub-register on whose behalf they are voting and return a copy of the instruction from such owner to the Company's secretary together with this form of proxy.

6. In the case of joint holder, 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.

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 properly authorised 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.

12. The shareholder's proxy may delegate his/her authority to act on the shareholder's behalf to another person, subject to any restriction set out in the proxy form.

13. The appointment of the proxy or proxies will be suspended at any time and to the extent that the shareholder chooses to act directly and in person in the exercise of any of the shareholder's rights as a shareholder at the annual general meeting.

14. The appointment of a proxy is revocable unless the shareholder expressly states otherwise in the proxy form.

15. As the appointment of the shareholder's proxy is revocable, the shareholder may revoke the proxy appointment by (i) cancelling it in writing, or making a later inconsistent appointment of a proxy and (ii) delivering a copy of the revocation instrument to the proxy, and to the Company. Please note the revocation of a proxy appointment constitutes a complete and final cancellation of your proxy's authority to act on the shareholder's behalf as of the later of (i) the date stated in the revocation instrument, if any, or the date on which the revocation instrument was delivered to the Company and the proxy as aforesaid.

16. If the proxy form has been delivered to the Company, as long as that appointment remains in effect, any notice that is required by the Companies Act to be delivered by the Company to the shareholder will be delivered by the Company to the shareholder or the shareholder's proxy or proxies, if the shareholder has directed the Company to do so, in writing and paid any reasonable fee charged by the Company for doing so.

17. The shareholder's proxy is entitled to exercise, or abstain from exercising, any voting right of the shareholder at the annual general meeting, but only as directed by the shareholder on the proxy form.

18. The appointment of the shareholder's proxy remains valid only until the end of the annual general meeting or any adjournment or postponement thereof or for a period of one year, whichever is shortest, unless it is revoked by the shareholder before then on the basis set out above.

CORPORATE INFORMATION

Lewis Group Limited

Incorporated in the Republic of South Africa

Registration number	2004/009817/06
JSE code	LEW
ISIN	ZAE 000058236
Registered office	53A Victoria Road, Woodstock, 7925
Postal address	PO Box 43, Woodstock, 7915
Sponsor	UBS South Africa (Pty) Ltd
Attorneys	Edward Nathan Sonnenbergs
Auditors	PricewaterhouseCoopers
Bankers	ABSA Bank Limited First National Bank of Africa Limited Investec bank Limited
Transfer secretaries	Computershare Investor Services Pty Ltd (Transfer Secretaries) PO Box 61051 Marshalltown, 2017
Investor relations consultants	Tier 1 Investor Relations Tel: +27 (0)21 702 3102 E-mail: ir@tier1ir.co.za
Website	www.lewisgroup.co.za