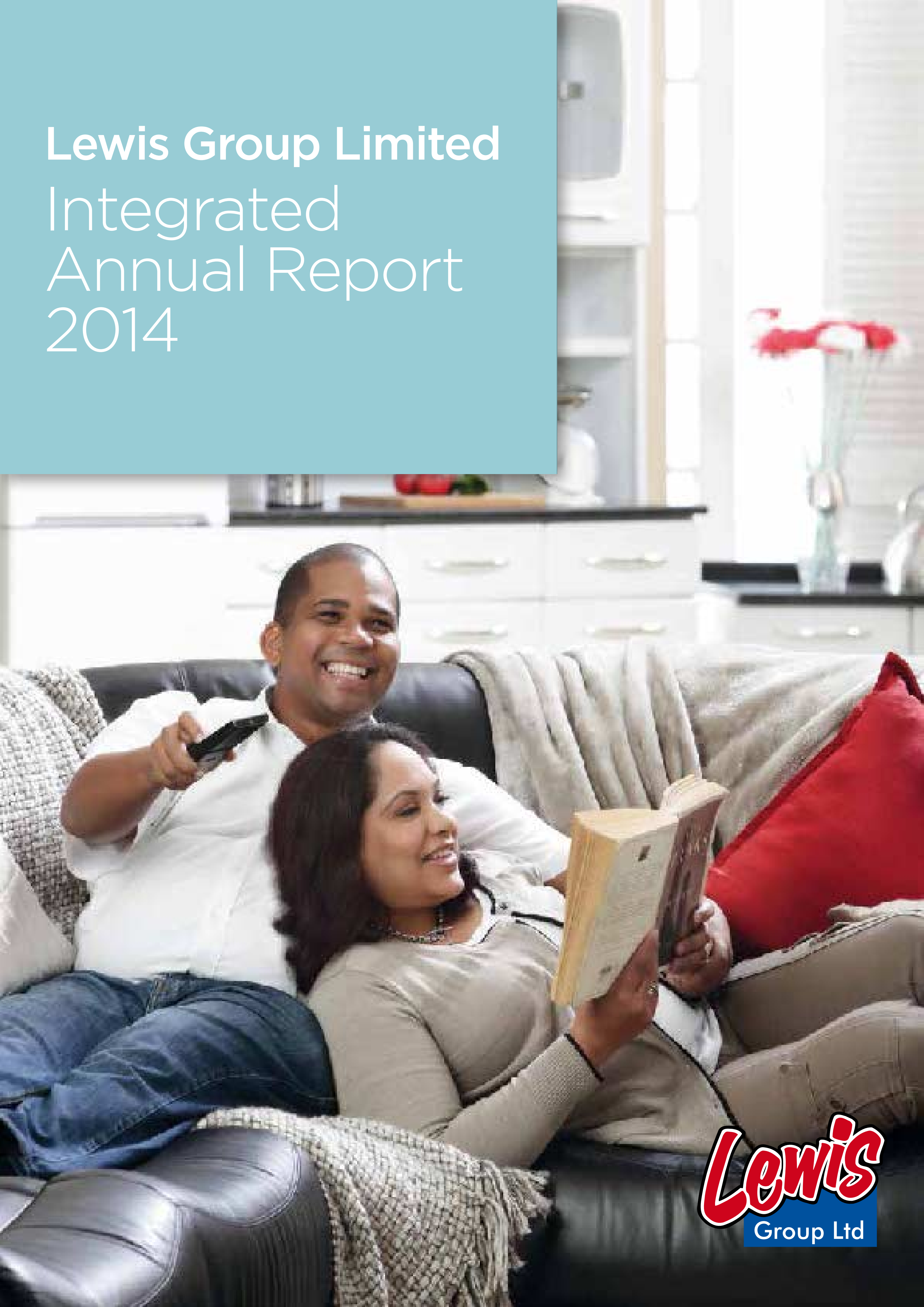
Lewis Group Limited

Integrated Annual Report 2014



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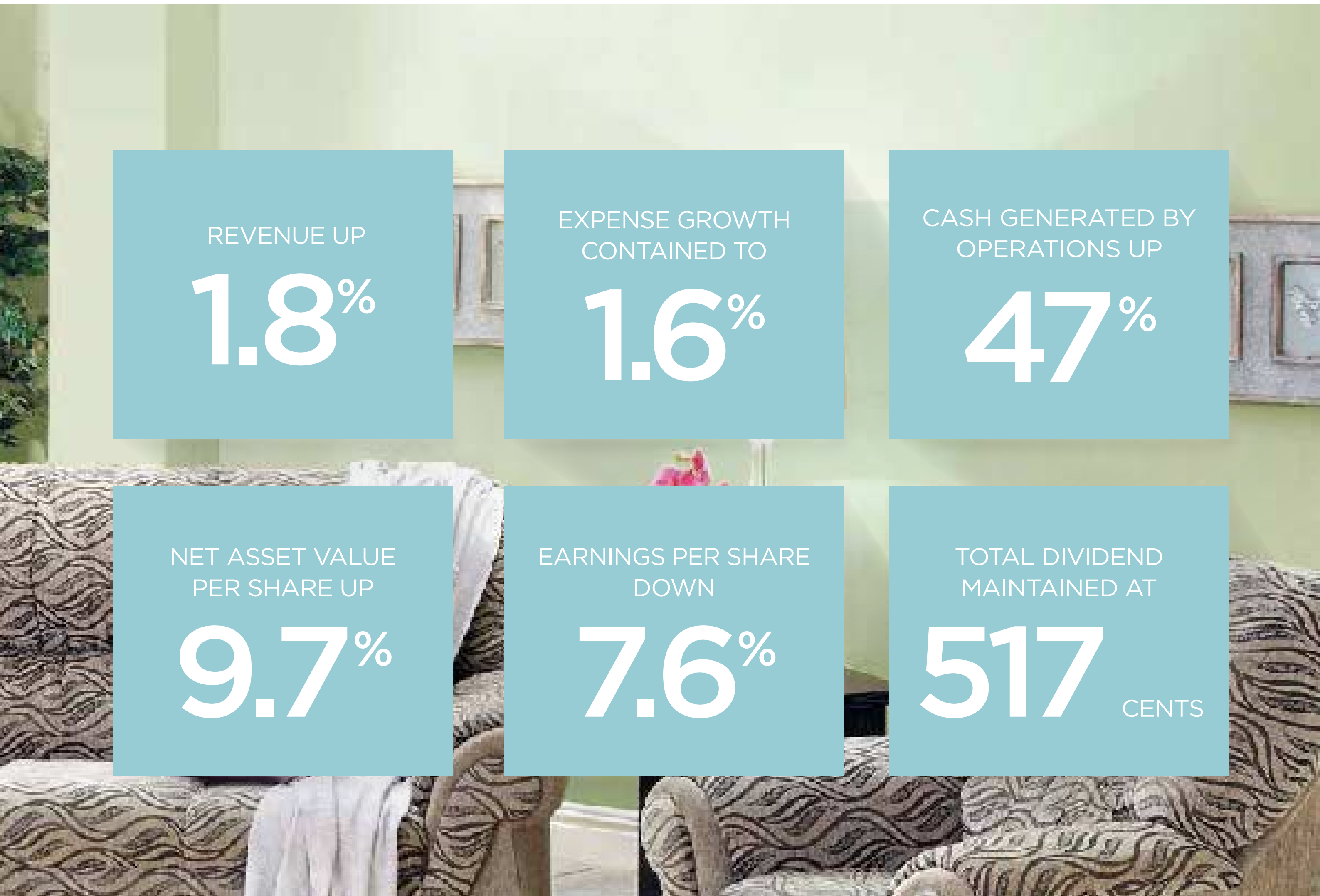
Year in review



REVENUE UP
1.8%

EXPENSE GROWTH CONTAINED TO
1.6%

CASH GENERATED BY OPERATIONS UP
47%

NET ASSET VALUE PER SHARE UP
9.7%

EARNINGS PER SHARE DOWN
7.6%

TOTAL DIVIDEND MAINTAINED AT
517 CENTS

- Competitive performance in challenging retail environment
- Proven business model remains a strategic advantage
- Debtor costs 11.6% of net debtors in deteriorating credit climate
- Strong operating cash flow
- Opened 20 and refurbished 100 stores
- Successfully launched R2 billion bond programme
- Level 4 BBBEE status maintained
- Qualified for JSE Socially Responsible Investment Index for third year

Introducing the report

Lewis Group has pleasure in presenting its Integrated Annual Report to stakeholders for the 2014 financial year. The directors are committed to accurate, balanced and transparent reporting to enable shareholders to make an informed view of the group's ability to create and sustain value.

Scope and boundaries of the report

The report covers the integrated performance and activities of Lewis Group (the group) which includes the main operating company, Lewis Stores (Proprietary) Limited, and its subsidiaries for the period 1 April 2013 to 31 March 2014. The companies operate in South Africa, Namibia, Botswana, Swaziland and Lesotho, with 86% 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.

Materiality has been applied in determining the financial and non-financial content and disclosure. Materiality is defined as being those issues that could affect the group's ability to create value over time or that could impact on an investor's valuation of the company.

The group has again published abridged financial statements in the 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.

Reporting has been prepared in line with best practice based on the principles of King III. A schedule of the application of these principles is available on the website. Management acknowledges the recent introduction of the International Integrated Reporting Council's framework and plans to align reporting with these guidelines as appropriate in subsequent years.

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 scorecard and the carbon footprint have been independently verified and measured.

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.

The group undertakes no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information or future events. 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 reporting and for the preparation of the Integrated Annual Report. The committee confirms the report fairly represents the integrated performance of the group and recommended the report for approval by the board of directors. The board approved the Integrated Annual Report for release to stakeholders on 26 May 2014.

David Nurek
Independent
non-executive chairman

Johan Enslin
Chief executive officer

Creating value for our stakeholders

Group profile

Lewis Group is a leading credit retailer selling household furniture and electrical appliances 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 636 stores across all metropolitan areas and has a strong presence in rural South Africa. The group targets customers in the fast growing middle to lower income market in the living standards measurement (LSM) 4 to 7 categories.

Founded 80 years ago in Cape Town, Lewis is now the country's largest furniture chain with 494 stores and is a household name in furniture retailing. Best Electric, launched in 1998 to sell branded electrical merchandise, was rebranded as Best Home and Electric in 2008 and the product range was expanded to include furniture lines which now account for 37% of sales. My Home was introduced in 2010 to sell more aspirational furniture to higher earning customers.

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

Credit is offered to customers across all the brands and the group has a credit customer base of over 670 000. Credit sales accounted for 72% of total sales in the 2014 financial year.

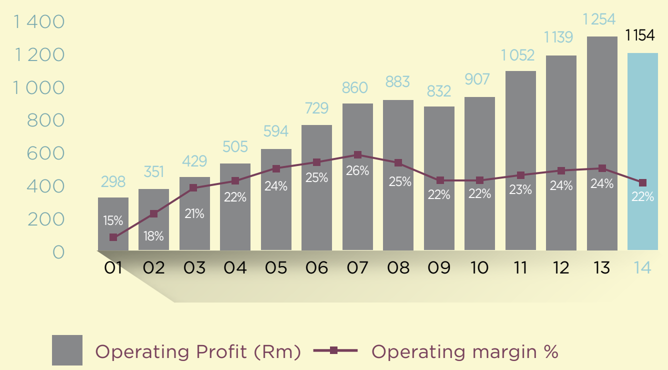
Lewis was one of the first South African retailers to expand into neighbouring southern African countries from the late 1960s. There are now 62 stores located outside South Africa in Botswana, Lesotho, Namibia and Swaziland which collectively account for 14% of the group's revenue.

The 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 communities in which it operates. Shoppers are served by staff from their local communities, with stores being located close to the places where Lewis customers live, work, shop and commute.

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

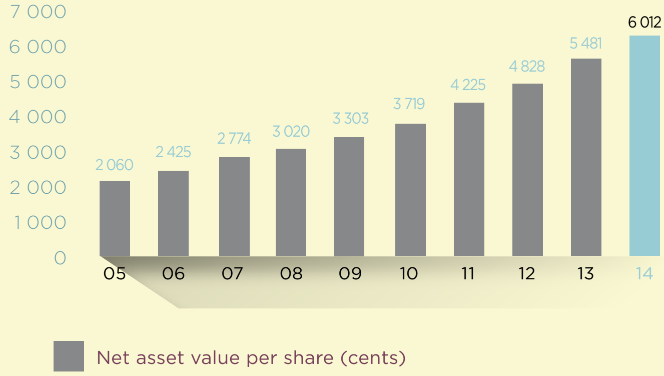
Operating profit

11 % compound annual growth in operating profit since 2001

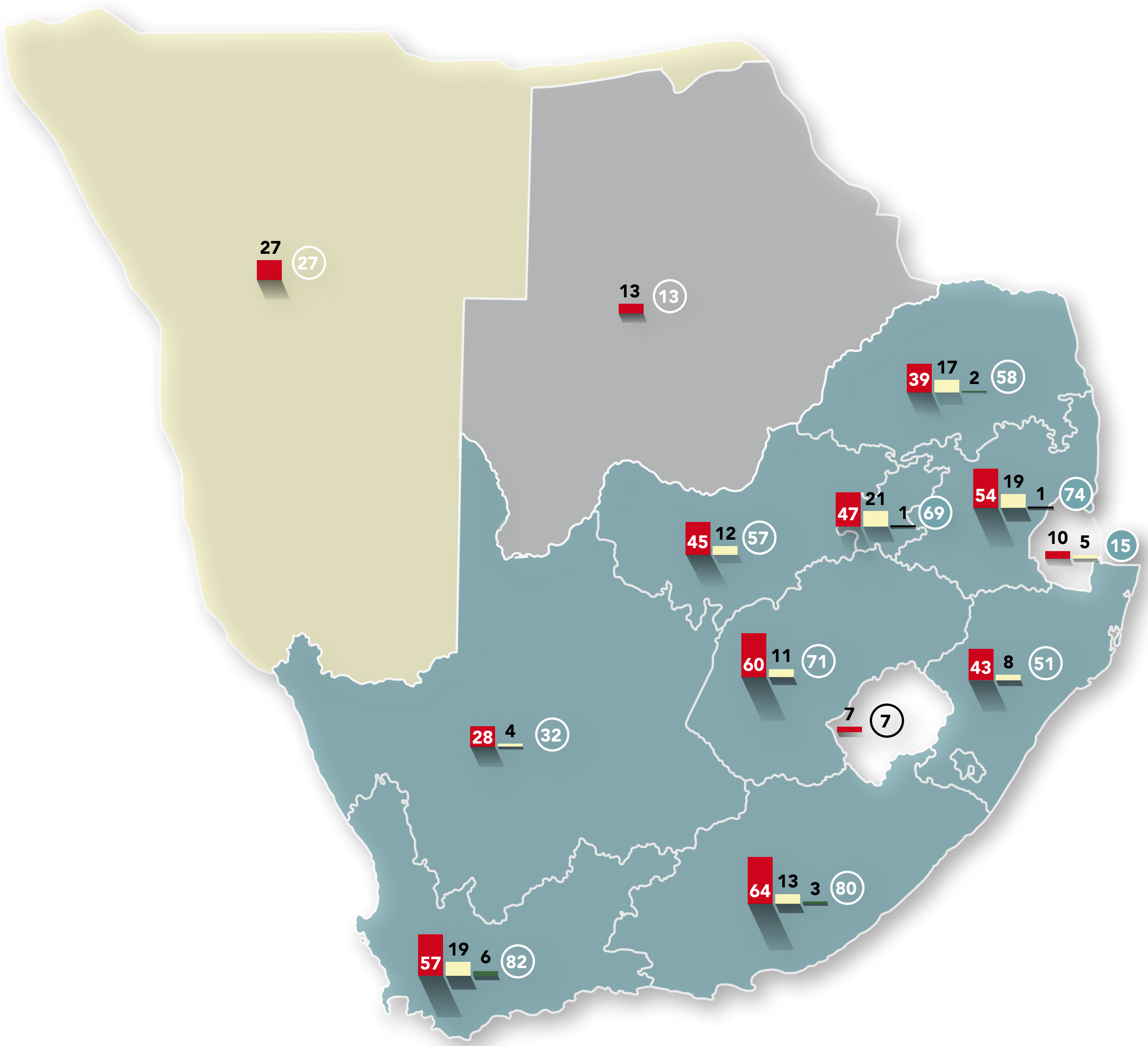


Net asset value per share

12.6 % compound annual growth in NAV since 2005

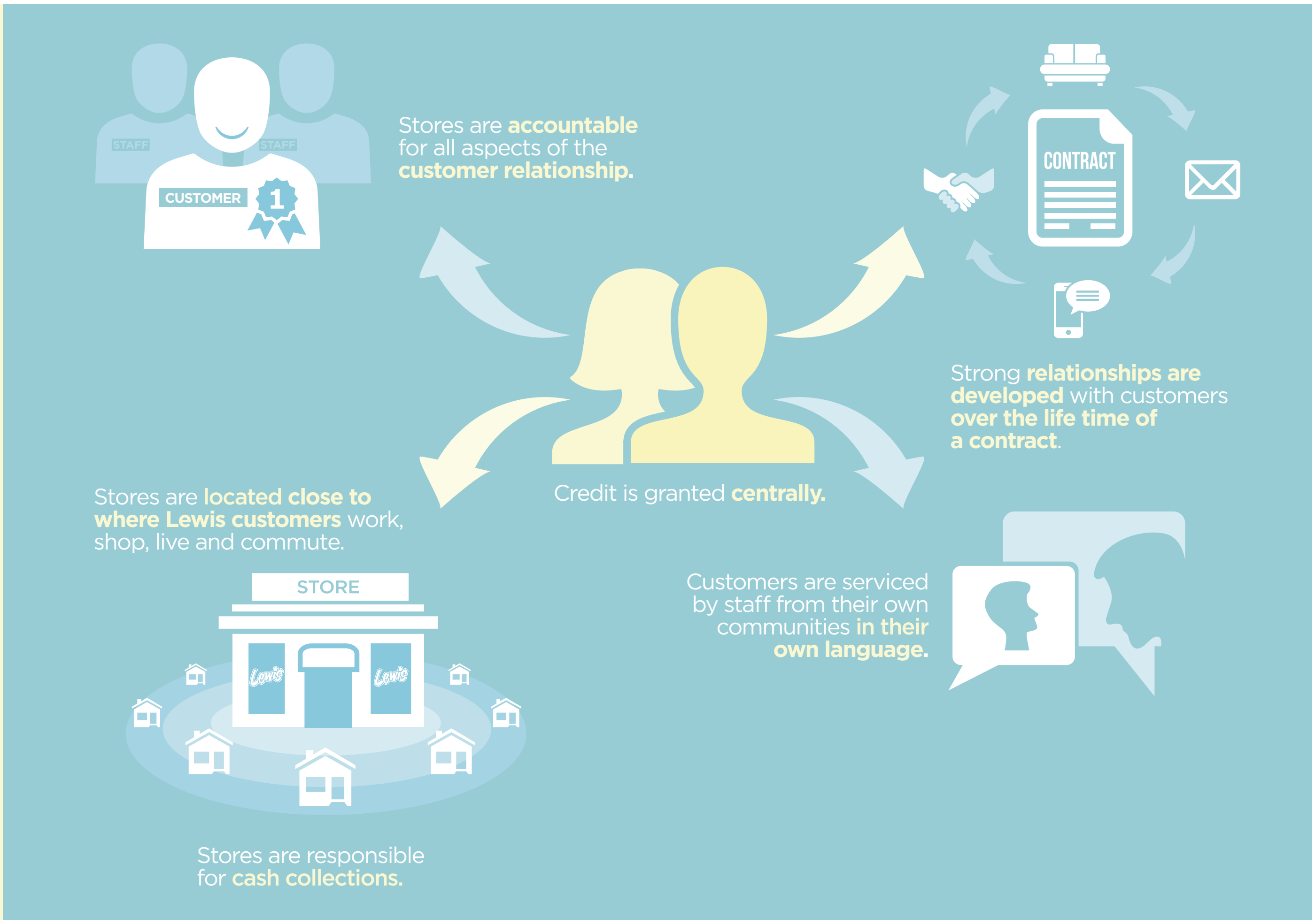


Store footprint



Geographic Footprint	Lewis	Best Home and Electric	My Home	Total Stores
Total stores in South Africa	437	124	13	574
Total stores outside South Africa	57	5	0	62
Total Stores – 31 March 2014	**494**	**129**	**13**	**636**
Total Stores – 31 March 2013	477	129	13	619

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.

This process is supported by highly sophisticated IT systems which remove the administrative burden at store level and enables real-time management reporting.

STORE

CUSTOMER RELATIONSHIPS MANAGED BY STORES

Stores are accountable for all aspects of the customer relationship.

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

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

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

Store managers are empowered to influence performance of stores and incentivised on results.

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 for approval.**
- Insurance is an optional offer on credit purchases.
- **Sales staff receive a basic salary, commission and incentives.**

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.**

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.
- **Promotions are a key marketing tool.**

Supply chain and delivery to customers

- Merchandise is delivered directly by suppliers to stores.
- **The 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.**

HEAD OFFICE

CENTRALISED CREDIT ASSESSMENT AND APPROVAL

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 credit worthiness, 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 40.**

Strategy and targets

Lewis Group's strategy is to 'create sustainable growth in shareholder value by offering exclusive merchandise on credit to the lower to middle income market through a network of stores in South Africa and neighbouring countries.'

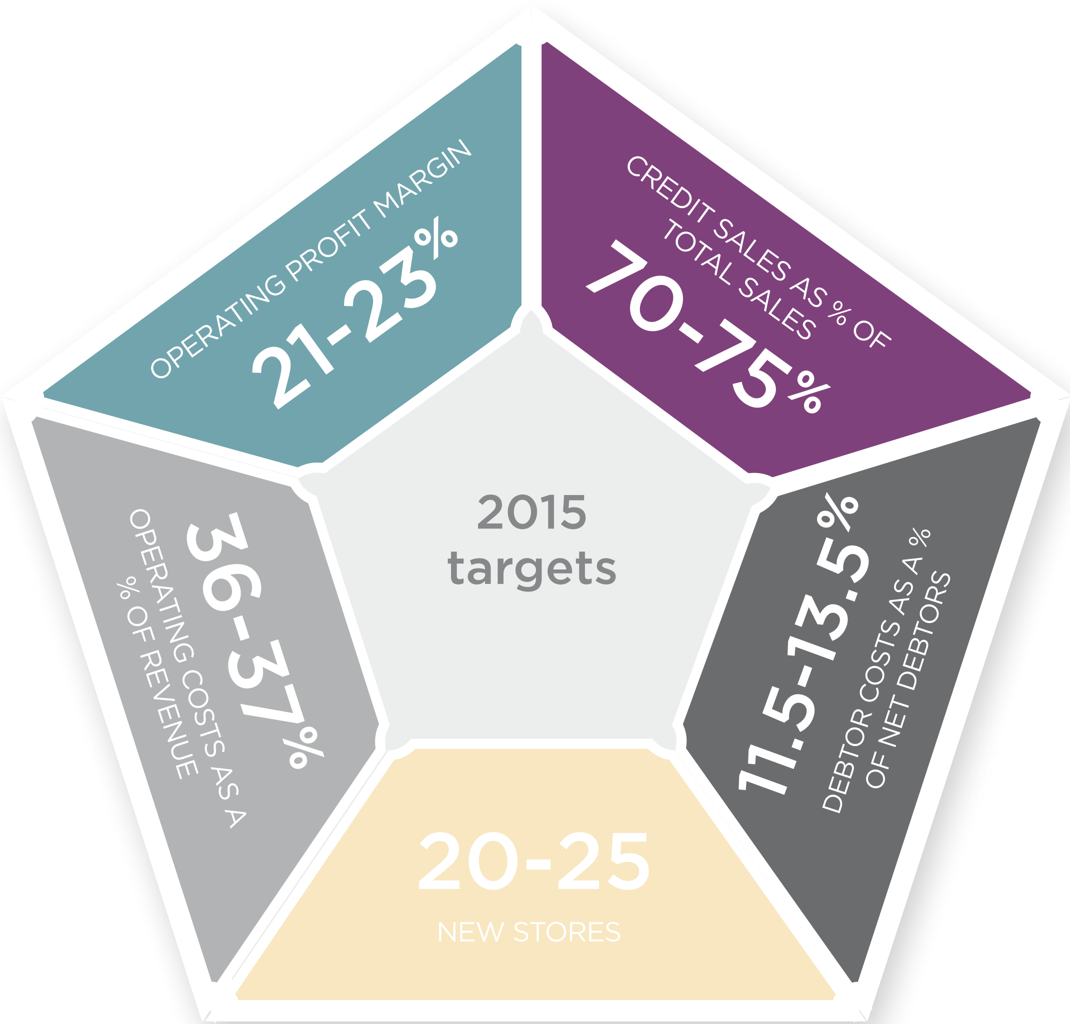
The strategy is reviewed annually by the board and executive management, together with progress against the medium-term strategic objectives.

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 and targets



Material impacts, performance indicators and targets

PERFORMANCE AND TARGETS						
Material impact	**Performance indicators**	**Achieved**	**Targets**			
		2014	**2014**	**2015**	**Medium-term**	
Merchandising and supply chain	Gross profit margin (%)	**36.7**	37.5 – 38.5	**37 – 38.5**	37 – 38.5	
	Inventory turn	**4.7**	5 – 5.5	**5 – 5.5**	5 – 5.5	
Credit management	Debtor costs as a percentage of net debtors	**11.6**	9.5 – 10.5	**11.5 - 13.5**	9 - 11	
	Satisfactory paid customers (%)	**68.3**	70 - 72	**66 – 70**	70 – 72	
Execution of business model	Operating profit margin (%)	**21.8**	23.5 – 24.5	**21 – 23**	22 – 24	
	New store openings	**20**	20 – 25	**20 – 25**	20 – 25	
	Credit sales as a percentage of total sales	**72.3**	70 – 75	**70 – 75**	70 – 75	
	Operating costs as a percentage of revenue (excluding debtor costs)	**36**	36 – 37	**36 – 37**	36 – 37	
Capital management	Gearing (%)	**23.9**	32 – 34	**30 – 34**	< 35	
	Dividend payout ratio (%)	**60**	50 – 55	**50 – 55**	50 – 55	
Human capital management	Skills development: staff trained annually	**6 393**	> 3 000	**> 3 000**	> 3 500	
	B-BBEE level contributor	**4**	4	**4**	< 6	
Regulatory environment	The board is responsible to oversee legislative, regulatory and governance compliance					
Information technology	The IT Steering Committee reports to the Risk Committee and manages IT performance on projects and IT controls					

Strategic objectives, key risks and action plans

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
- Volatility of exchange rate impacting on margin, pricing and planning

Management action plans

- Develop new products and offers for regular launches
- Ensure reliable back-up supplier channel
- Increase exclusive appliance brands
- Continue to invest in enterprise development with local suppliers
- Manage inventory turn within targeted range
- Purchase forward cover to hedge against risk of foreign currency fluctuations

34 Refer to merchandising and brands report

Credit management

Strategic objective

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

Key risks

- Inability to maintain optimal quality of debtors' book owing to high levels of unemployment, continuing labour unrest, the impact of aggressive unsecured lending in 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

40 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

34 Refer to merchandising and brands report

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 underperformance

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

26 Refer to chief financial officer's report

Strategic objectives, key risks and action plans (continued)

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

44/54 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 and 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

18/50 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)

50 Refer to corporate governance report

Engaging with stakeholders

Stakeholder engagement is central to the group's 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 who have an interest in the business or who could influence the business in a positive or negative manner.

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

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 and analysts	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 Brokers 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

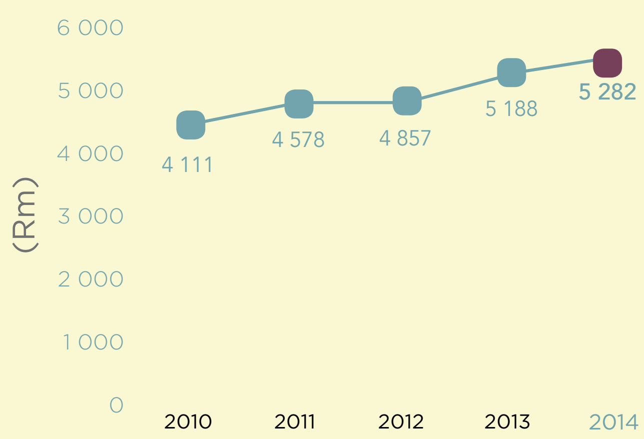
Investment case

Lewis Group has a clear strategic focus, proven business model and is positioned in a growing segment of the South African consumer market. While the current economic cycle is challenging for the retail sector and particularly for consumers in the group's target market, management believe the following factors should ensure sustainable, long-term returns to investors and benefit all stakeholders.

Strength of the business model

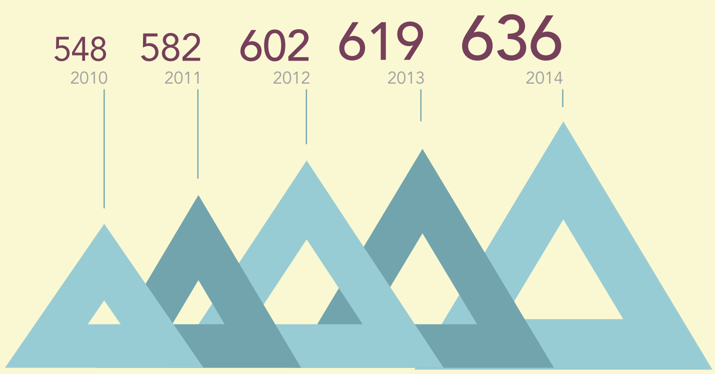
- Focused on one business: retailing of furniture and appliances
- Decentralised business model with stores accountable for all aspects of the customer relationship
- Customers positioned in a growth segment of the economy
- Credit offered across all brands to facilitate sales growth
- Customer loyalty: 55% of credit sales from existing customers
- Low cost structure and internal culture of cost consciousness
- Consistently high operating margins throughout the economic cycle
- High dividend payout ratio since listing in 2004
- Proven track record of organic growth

Revenue



Growing store presence

- 636 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



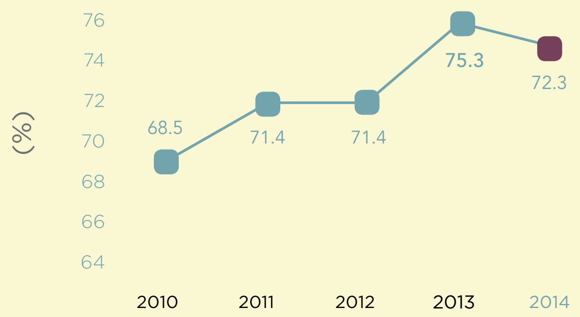
The Investment case should be read together with the Business model (page 6) and Strategy and targets (page 8).

Investment case (continued)

Proven credit risk management

- Extensive knowledge of credit risk management in lower to middle income market
- Centralised credit approval and granting
- Decentralised cash collections process at stores
- Advanced application and behavioural risk scorecards
- High proportion of credit sales: 72% of total sales in 2014
- Opportunity to offer insurance to credit customers

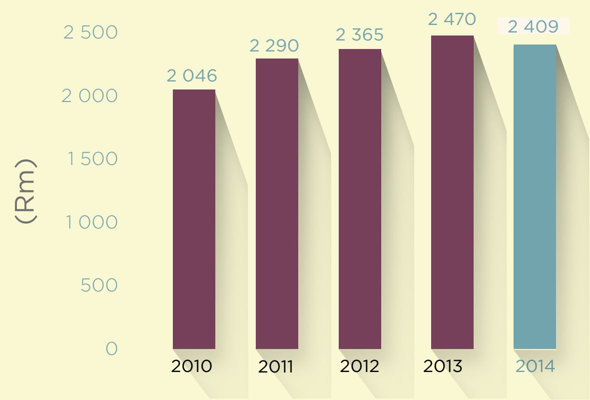
Credit sales % of merchandise sales



Differentiated and exclusive merchandise ranges

- Innovative sourcing 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

Merchandise sales



Experienced management team

- Stable, long serving executive team: average 15 years' service
- Strong blend of company and industry experience
- Culture of promoting from within
- Strong senior management ensures leadership continuity

32 Refer to Executive Team

Leadership and performance

Chairman's report

"Lewis Group delivered a resilient performance as the business faced its most challenging year since listing on the JSE a decade ago."

David Nurek
Independent non-executive chairman

Introduction

It is pleasing to report that despite the adverse market conditions the group has continued to invest for future growth by expanding the store footprint and investing in the debtors' book, our largest asset.

The directors have also shown their confidence in the group's prospects by maintaining the full year dividend at 517 cents per share.

Deteriorating trading conditions

Trading conditions in the furniture retail sector continued to deteriorate over the past year as consumer spending remained under pressure from rising fuel, food and utility costs, and high levels of indebtedness, particularly in our middle to lower income target market.

Lower income households are facing relatively greater pressure on disposable income owing to the higher weightings of food and transport in their monthly household spending.

The average ratio of household debt to disposable income of Lewis customers has increased from 46% in 2012 to 47% in 2013 and to 51% in 2014, evidence of the increasing pressure facing our customers. However, this compares favourably with the national average for all income groups of over 74%.

The group's target market is also being severely impacted by ongoing retrenchments, rising unemployment and widespread industrial action, with the mining industry experiencing its longest and most costly strike in history.

Following a slight improvement in unemployment in the second half of 2013 the country's jobless rate increased to over 25% in the first quarter of 2014, with over 5 million South Africans being unemployed.

These factors all continue to weigh on consumer sentiment and the Consumer Confidence Index remains in negative territory. Confidence levels in the lower middle income brackets, the Lewis target customer, fell by five points to -12 in March 2014, in contrast to the high income group which has increased to +1.

After remaining stable in recent years, interest rates entered a tightening phase and were increased by 50 basis points in January 2014, with further increases anticipated in the year ahead. However, this is not expected to have a significant impact on the group as Lewis customers have limited exposure to asset-based finance, hence their need for store credit.

Competitive financial performance

Our decentralised business model remains a key differentiator in the current environment and enabled the group to report a competitive performance relative to its credit-based furniture sector peers.

The results were impacted by merchandise sales declining 2.5% and an increase of 30% in debtor costs in the deteriorating credit environment. Management is to be commended for containing cost growth, excluding debtor costs, to 1.6%. Operating cash flow remains strong and cash generated from operations increased by 47% on last year.

The operating profit margin of 21.8% (2013: 24.2%) was impacted by the higher debtor costs and lower sales growth, and operating profit declined 7.9% to R1.15 billion.

Headline earnings totalled R818 million, with headline earnings per share 8.6% lower at 921 cents (2013: 1 008 cents).

The directors declared a final dividend of 302 cents per share, maintaining the total dividend for the year at 517 cents.

The trading and financial performance is covered in the chief executive officer's report and in the chief financial officer's report on pages 22 to 28.

Regulatory environment

In last year's integrated report we highlighted the regulatory uncertainty relating to credit life insurance. The National Credit Act Amendment Bill was passed in May 2014 which gives the Minister of Trade and Industry, in consultation with the Minister of Finance, the power to prescribe a limit to the cost of credit insurance in so doing capping both credit life and asset cover. The detail on the possible pricing cap has not yet been determined and role players in the credit industry await the commencement of a consultative process with government.

Lewis remains hopeful that positive engagement with the regulators will bring about a speedy resolution to this long outstanding matter and end the current uncertainty in the market.

The National Credit Regulator, in consultation with the broader credit industry, is currently preparing affordability assessment guidelines for credit providers. These guidelines are aimed at formalising responsible credit granting and ensuring customers have the ability to pay the proposed credit instalments. As a responsible credit provider Lewis fully supports this process and welcomes the intervention of the regulator.

Corporate governance

Our governance structures and processes are regularly reviewed to align with best practice. The group has a highly experienced and stable board, and the independence of all seven non-executive directors was confirmed in the annual evaluation by the nominations committee. Our board is also highly transformed, with 57% of the non-executive directors being black and 43% women.

An independent evaluation of the group's overall governance and sustainability practices resulted in our inclusion in the JSE Socially Responsible Investment (SRI) Index for the third consecutive year.

Prospects

The directors expect the current difficult trading conditions to continue into the new financial year owing to low consumer confidence, high personal debt levels and continuing instability in the labour market. New merchandise ranges were launched in June and management has developed innovative acquisition strategies to attract new customers to the group's value-for-money product offerings.

The group's focus in this challenging environment will therefore remain on driving credit sales growth, containing costs and improving collections through higher levels of productivity at store level.

The furniture retail industry is under extreme pressure on several fronts. However, we believe the group is well positioned to capitalise on industry consolidation which may result in the rationalisation of brands and stores, and could lead to an increase in our market share.

Appreciation

On behalf of the board I thank Johan Enslin and his senior management team for their leadership of the group in extremely challenging conditions. The directors confirm their confidence in the management team and are fully supportive of the strategies that have been adopted in the current downturn. I also thank our more than 7 500 staff across the country and in the neighbouring states for their commitment to meeting the needs of our customers.

My fellow non-executive directors provide valuable insight and guidance and I thank them for their continued support.

Thank you to our external stakeholders, including our shareholders, customers, suppliers and manufacturers, industry regulators and business partners, for their support of the group in the past year.

David Nurek
Independent non-executive chairman

Board of directors

1 David Nurek (64) 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 22 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 (51) 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 and 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 (49) 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 chairman of Yebo Yethu and serves on 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 Woman in Business and Government in 2007 and Top Business Personality in Financial Services: Banking in 2008.

4 Les Davies (58) 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 18 years and has been chief executive officer of Monarch 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 (40)

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 and Operations Director of Lewis Stores (Pty) Ltd where he was responsible for all facets of Lewis and Best Home and Electric.

6 Sizakele Marutlulle (46) MA (Sociology)

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

Appointed October 2009

Sizakele is the founder of Moonchild – a cross-cultural brand and business consultancy. She is also the CEO of weareBOB Agency – South Africa's only creative-collaboration housing best-of-breed practitioners across the communication continuum. Sizakele has held many executive positions in South Africa and elsewhere and was most recently the chief marketing officer, Barclays Africa for Absa Bank with overall responsibility for all Absa and Barclays Africa Brand and Marketing functions. She has also led the leadership of various Ad Agencies including Grey SA and Herdbuoys McCann-Erickson among others. Sizakele was named by BWA as 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 member of the council for Vega School of Brand Communications and a member of the Institute of Directors.

7 Hilton Saven (61) 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 (69)

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 (67) Diploma in Law

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

Appointed June 2004

Ben practised as an attorney for 18 years and continues to consult to Van der Ross Motala attorneys. His directorships include Naspers, FirstRand, 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

"Lewis Group's decentralised business model has never been more relevant than in the past year when the furniture retail sector faced depressed consumer spending, high levels of over-indebtedness and credit stress, and instability in the macro economy."

Johan Enslin
Chief executive officer

Introduction

The business model has ensured sustainable performance through all market conditions and has enabled the group to maintain its operating profit above 21% since listing on the JSE Limited in 2004.

It is encouraging that over the past year Lewis gained market share from its competitors despite the tough trading environment.

Trading performance

Group merchandise sales declined by 2.5% to R2.41 billion as trading became more difficult in the second half of the year. After increasing by 1% over the first half, sales for the third quarter declined by 6.3% and by 3.3% in the fourth quarter. This reflects the impact of the protracted strikes in the mining sector.

Furniture and appliance sales, which account for 81% of total sales, declined by 3.6% while sales of electronic goods increased by 3.1%. Credit sales accounted for 72.3% of total sales compared to 75.3% in 2013, remaining well within management's targeted range of 70% to 75%. On a geographic basis, sales from the 62 stores outside South Africa accounted for 14% of the group's sales.

The group's merchandise strategy is to offer exclusive, value-for-money product which is relevant to the target market. Most of the furniture ranges are exclusive to Lewis. We source innovative and exclusive products locally and internationally. Currently more than half of the furniture lines are imported directly offering product differentiation and competitive pricing. Imports originate predominantly from the Far East, South America and selected European countries. New furniture ranges are introduced in June and October each year to offer newness to customers.

The gross profit margin of 36.7% for 2014 compares to 38.3% in 2013. We are striving to improve gross margin in 2015 and have set a target of 37% to 38.5% for the new financial year.

The operating profit margin of 21.8% (2013: 24.2%) was impacted by the lower sales growth and by the higher debtor costs, which is discussed below. The group's financial performance is covered in the chief financial officer's report.

Business model

The performance outlined above once again highlights the strength and resilience of our decentralised customer focused business model in extremely tough trading conditions.

Store management and staff are responsible for all aspects of the customer relationship. Customers are served by staff from their own communities and in their home language. This allows Lewis to create trust and loyalty, with 50% to 55% of sales being made to existing customers.

While the group's credit granting and approval

processes are centralised to ensure consistent credit risk management, stores are responsible for cash collection and follow-up with defaulting customers. Staff are also incentivised on collections targets. Vehicles at each store are also used to collect payments from customers at their homes.

The business model is highly responsive to changes in market conditions and customer payment behaviour. Store management and staff have an understanding of local conditions and issues which may be affecting their community. Lewis staff engage with customers to make arrangements when communities are affected for example by ongoing strikes.

Customers generally come into stores to pay monthly instalments as Lewis does not encourage debit orders. The regular interaction with customers creates opportunities for further sales. Personal contact enables Lewis staff to build strong relationships which is not possible through call centres.

The decentralised business model extends to supply chain management and delivery. The group does not operate costly 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 deliveries taking place within 24 hours of the sale.

We are committed to our decentralised operating processes. The business model is regularly reviewed and revised to ensure that stores get the best possible support from effective centrally integrated IT systems.

Debtor management

The performance of the debtors' book in the past year reflects the deteriorating credit climate and the increasingly challenging credit collection environment.

The increase in the credit application decline rate from 36.5% in 2013 to 38.4% this year highlights the levels of indebtedness among our customers who are now unable to qualify for further credit. Much of this has been the result of the over-extension of unsecured credit into this market over the past few years and more recently the marketing of debt consolidation products.

It is interesting that during the peak of the global market downturn and credit crisis in 2009 our application decline rate was 25.4%, confirming that customers are now more indebted and facing far more severe credit stress.

Demand for Lewis merchandise remains strong and customers are satisfied with the credit offering, but we are declining close to 40% of potential sales.

Chief executive officer's report

(continued)

The rate of increase in debtor costs remained stable at 30%, the same level as reported at the half year mark. Debtor costs as a percentage of net debtors moved from 9.4% to 11.6% and the impairment provision increased from 17.4% to 18.6%.

The average term of new credit contracts remained steady at 33 months. The group's maximum repayment term is 36 months and this will not be extended as this is considered an appropriate period for the furniture life cycle.

Satisfactory paid customers represented 68.3% of total debtors at year-end compared to 69.4% in 2013.

Current indications are that the credit environment is unlikely to improve in the short term and could deteriorate further into the new financial year. We have therefore increased our target on debtor costs for 2015 to a range of 11.5% – 13.5%.

Further detail is contained in the credit report on page 40.

Store expansion

Despite the current slowdown in the consumer economy the group continues to invest for the future and opened a net 17 new stores, bringing the store base to 636 at year-end. A further 100 stores were refurbished.

All the new outlets are the smaller format stores with lower cost structures and higher sales densities. These stores average 200 to 250 m^2 compared to the conventional stores of 400 to 450 m^2. The group now has 130 of the small format outlets, up from 81 last year. Total trading space reduced by 2.4% as the group relocated to smaller stores and reduced space in large stores when leases were renewed.

Lewis remains the country's largest furniture brand with 494 stores, Best Home and Electric has 129 outlets and My Home 13 stores.

The group currently has 62 stores located outside South Africa in Namibia (27 stores), Swaziland (15), Botswana (13) and Lesotho (7). Africa presents a growth opportunity for the group in the medium-term, with the prospect of expanding into new countries as reliable credit bureau data becomes available.

We plan to open 20 to 25 new stores in the year ahead which will all be small format stores and mainly located in areas where the Lewis brand is currently under-represented. The group is committed to achieving its medium-term target of 700 stores.

Appreciation

Thank you to our chairman, David Nurek, for his leadership of the board and to my fellow directors for their ongoing support. Thank you to my executive colleagues and the management team who have again led by example, and to our staff at the stores and at head office who have performed admirably in such difficult conditions. We look forward to your continued commitment in the year ahead.

Johan Enslin
Chief executive officer

Chief financial officer's report

"In an environment of rapidly deteriorating trading and credit conditions the group reported a competitive financial performance for the year, driven by tight cost control and strong cash generation."

Les Davies
Chief financial officer

Introduction

While the group did not achieve all of the financial and operating targets for the year owing to the worsening environment, operating costs were well managed at 1.6% growth, cash generated from operations increased by 47% and the net asset value increased 10% to R60.12.

The net asset value has shown sustained growth since the group's listing on the JSE Limited in 2004, increasing by a compound rate of 12.6% per annum over the period.

The group successfully entered the corporate bond market during the financial year and raised R500 million in the first tranche of a R2 billion domestic medium-term note programme. This has allowed the group to diversify its sources of funding and reduce the cost of funding. Lewis Group was assigned an 'A(za)' long-term credit rating with a stable outlook ahead of the bond issue.

Financial performance

The following review of the group's financial performance for the year ended 31 March 2014 should be read in conjunction with the abridged consolidated financial statements on pages 67 to 76. The audited annual financial statements are available to shareholders on the Lewis Group website www.lewisgroup.co.za.

Income statement

The group's revenue increased by 1.8% to R5 282 million (2013: R5 188 million).

Merchandise sales declined by 2.5% to R2 409 million (2013: R2 470 million). Sales grew by 1% in the first half followed by a decline of 5.3% in the second half of the year as consumers faced increasing cost pressures and the economy was impacted by sustained strike action.

A net 17 new stores were opened but overall trading space was reduced by 2.4% as the group relocated to smaller stores and reduced space in large stores when leases were renewed.

Finance charges earned increased by 12% owing to the higher proportion of longer term contracts in the base. Revenue from ancillary services grew by 8% as the group sold a wider range of service contracts. Insurance revenue contracted owing to the introduction of a lower priced insurance offering in May 2013.

The gross profit margin reduced to 36.7% from 38.3% in 2013, impacted mainly by a once-off provision covering VAT on promotional offers.

Gross profit margin analysis (%)	2014	2013
Gross profit margin	**36.7**	38.3
Exchange gains	**0.3**	0.1
Adjusted gross profit	**37.0**	38.4
Provision – VAT on promotional offers	**1.1**	–
Normalised gross profit	**38.1**	38.4

Management continued to focus on tight cost disciplines in the current slower sales environment. Growth in operating costs, excluding debtor costs, was contained to 1.6%, despite inflationary pressures from the weakening Rand and other sources. Operating costs as a percentage of revenue at 36.0% was in line with last year's figure of 36.1%.

Analysis of operating costs	2014 Rm	2013 Rm	Change %
Employment costs	**819**	786	4.2
Admin and IT	**217**	203	7.1
Marketing	**173**	191	(9.5)
Occupancy costs	**245**	233	5.4
Transport/Travel	**193**	185	4.0
Depreciation	**58**	55	6.3
Other operating costs	**196**	218	(10.5)
Total	**1 901**	**1 871**	**1.6**
% of revenue	36.0	36.1	

Marketing costs reduced by 9.5% owing mainly to the better rates negotiated with suppliers. The group has maintained its 'share of voice' in the marketplace and has not reduced its levels of market awareness.

The reduction in other operating costs was mainly due to lower insurance provisions following the reduction in premium rates in the first half of the financial year.

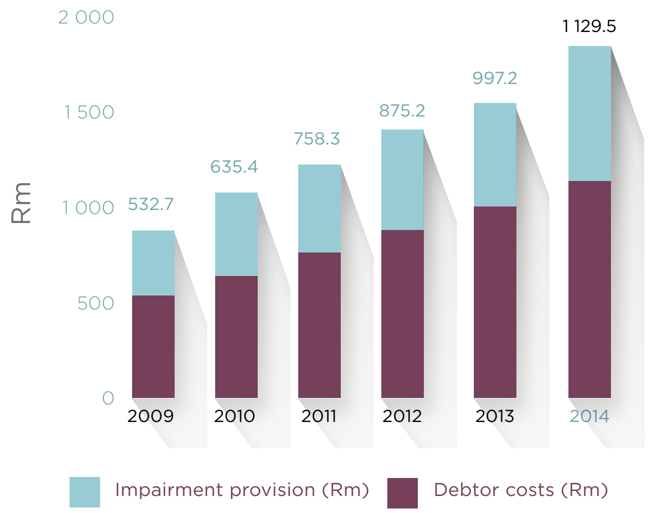
Analysis of debtor costs	2014 Rm	2013 Rm
Total debtor costs	**702**	540
– Bad debts written off	**570**	418
– Impairment provision	**132**	122
Debtor costs as a % of net debtors	**11.6**	9.4

Debtor costs increased by 30% as credit conditions continued to deteriorate, with debtor costs as a percentage of net debtors moving from 9.4% to 11.6%.

The increase in the impairment provision from 17.4% to 18.6% reflects the worsening credit climate. The group adopts a conservative policy on impairments and the directors believe the group is adequately provided.

The following table highlights the conservative buffer that the group maintains between its debtor costs and the provision for impairment.

Debtor costs vs Impairment provision (Rm)



The operating profit margin of 21.8% (2013: 24.2%) was impacted by the higher debtor costs and lower sales growth. Operating profit was 7.9% lower at R1.15 billion.

Investment income increased 13% to R126 million and comprises interest, dividend income and realised equity gains.

Headline earnings totalled R818 million, with headline earnings per share 8.6% lower at 921 cents (2013: 1 008 cents).

Segmental performance

	Group	Lewis	Best Home and Electric	My Home
Revenue (Rm)	5 282	4 400	756	126
Revenue growth (%)	1.8	1.9	2.5	(4.4)
Merchandise sales (Rm)	2 409	2 005	336	68
Sales growth (%)	(2.5)	(1.7)	(4.1)	(14.5)
Operating profit (Rm)	1 154	963	176	15
Operating margin (%) 2014	21.8	21.9	23.3	12.1
2013	24.2	24.4	25.3	11.0

The detailed financial and operational performance of the group's brands is covered in the merchandise and brands report on pages 34 to 38.

Balance sheet

Insurance investments at R1 699 million are in line with last year. Management of Monarch's investment portfolio is outsourced to Sanlam Investment Management. At year-end 41% (2013: 34%) of the assets were held in listed equities and 59% (2013: 66%) in cash and bonds.

Inventory levels were well managed in the slower sales environment and totalled R325 million (2013: R306 million) at year end. The inventory turn was 4.7 times (2013: 5.0 times).

Capital ratios	2014	2013
Return on equity (%)	**16.5**	20.0
Return on capital employed (%)	**13.6**	16.8
Return on assets (%)	**16.8**	20.4

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 surplus capital to shareholders mainly through dividend payments.

A total dividend of 517 cents was declared (2013: 514 cents) matching last year's payout. This comprises an interim dividend of 215 cents and a final dividend of 302 cents.

The gearing ratio reduced to 23.9% (2013: 29.8%) as more longer-term contracts settled in the base and the growth in the debtors' book slowed. Operating cash flow remains strong despite the challenging trading conditions, with cash generated from operations increasing 47% to R931 million.

Plans and targets for 2015

The reduction in gearing levels provides scope for the group to undertake share buy-backs selectively in the year ahead. Authority to repurchase shares was granted by shareholders at the 2013 annual general meeting and the group plans to seek renewal of this authority at the forthcoming AGM.

Capital expenditure of R87 million has been approved for the 2015 financial year, with the majority to be spent on the ongoing renewal of the delivery fleet.

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

The group plans to open 20 to 25 new stores in the year ahead. However, total trading space is expected to decrease as all new outlets will be opened in the smaller format and lease renewals of large stores offers opportunity to downsize.

The financial targets for 2015 are as follows:

Financial and operating targets	2015	Medium-term
Gross profit margin (%)	**37 – 38.5**	37 – 38.5
Operating costs as a % of revenue	**36 – 37**	36 – 37
Debtor costs as a % of net debtors	**11.5 – 13.5**	9 – 11
Operating profit margin (%)	**21 – 23**	22 – 24
Inventory turn (times)	**5 – 5.5**	5 – 5.5
Gearing ratio (%)	**30 – 34**	<35
Dividend payout ratio (%)	**50 - 55**	50 – 55

Appreciation

Thank you to our local and international shareholders for your support and to the broader investment community for your engagement with the group over the past year. I also thank my colleagues in the finance department for their support and commitment.

Les Davies
Chief financial officer

Five-year review

	2014 Rm	2013 Rm	2012 Rm	2011 Rm	2010 Rm
GROUP INCOME STATEMENTS					
Revenue	5 281.7	5 187.6	4 857.3	4 577.7	4 110.6
Merchandise sales	2 409.1	2 470.3	2 365.4	2 290.3	2 045.5
Other revenue	2 872.6	2 717.3	2 491.9	2 287.4	2 065.1
Cost of sales	(1 524.4)	(1 523.1)	(1 446.3)	(1 458.6)	(1 330.6)
Operating costs	(2 603.3)	(2 410.9)	(2 271.9)	(2 066.6)	(1 872.8)
Operating profit	1 154.0	1 253.6	1 139.1	1 052.5	907.2
Investment income	125.8	111.8	91.9	82.0	77.5
Profit before interest and taxes (EBITA)	1 279.8	1 365.4	1 231.0	1 134.5	984.7
Finance costs	(102.7)	(96.3)	(63.2)	(91.9)	(121.2)
Net profit before tax	1 177.1	1 269.1	1 167.8	1 042.6	863.5
Taxation	(334.9)	(357.4)	(367.2)	(330.7)	(272.1)
Attributable profit	842.2	911.7	800.6	711.9	591.4
Headline earnings	817.6	894.4	780.7	688.9	565.5
GROUP BALANCE SHEETS					
Assets					
Non-current	1 822.6	1 594.3	1 333.3	1 155.9	980.1
Property, plant and equipment	327.3	332.6	311.9	278.7	251.1
Investments – insurance business	1 415.0	1 238.3	1 005.3	857.1	716.0
Retirement benefit asset	79.7	22.8	–	–	–
Deferred tax asset	0.6	0.6	16.1	20.1	13.0
Current	6 167.3	5 672.1	4 797.1	4 415.8	3 877.9
Inventories	324.6	305.8	281.4	256.3	210.0
Trade and other receivables	5 078.9	4 840.9	4 064.5	3 835.0	3 427.6
Investments – insurance business	283.7	465.9	373.3	240.2	178.1
Cash and cash equivalents	480.1	59.5	77.9	84.3	62.2
Total assets	7 989.9	7 266.4	6 130.4	5 571.7	4 858.0
Equity and Liabilities					
Capital and reserves	5341.8	4847.3	4274.6	3 728.1	3 273.7
Non-current liabilities	1 266.4	1 479.8	825.0	544.5	486.3
Interest-bearing borrowings	1 000.0	1 250.0	650.0	400.0	350.0
Retirement benefits	92.9	75.3	63.6	59.4	51.8
Deferred taxation	173.5	154.5	111.4	85.1	84.5
Current liabilities	1 381.7	939.3	1 030.8	1 299.1	1 098.0
Trade and other payables	227.9	211.7	585.8	567.0	450.0
Reinsurance and insurance liabilities	388.7	472.1			
Short-term borrowings	758.0	255.5	424.0	683.0	611.4
Taxation	7.1	–	21.0	49.1	36.6
Total equity and liabilities	7 989.9	7 266.4	6 130.4	5 571.7	4 858.0
Group cash flow statements					
Cash generated from operations	930.9	632.8	972.4	777.0	478.1
Dividends and interest received	104.1	100.5	76.6	66.0	59.9
Interest paid	(109.2)	(103.2)	(67.0)	(95.1)	(127.2)
Tax paid	(326.9)	(358.4)	(377.4)	(328.0)	(214.2)
Net cash retained from operations	598.9	271.7	604.6	419.9	196.6
Cash utilised in investing activities	35.3	(257.1)	(271.7)	(227.3)	(126.3)
Net effect of financing activities	(66.1)	(64.5)	(30.3)	(292.1)	162.7
Net cash increase/(decrease) in cash and cash equivalents	568.1	(49.9)	302.6	(99.5)	233.0
Ratios and statistics					
Returns					
Return on average shareholders funds (after-tax)	16.5%	20.0%	20.0%	20.3%	19.2%
Return on average capital employed (after-tax)	13.6%	16.8%	16.7%	17.2%	17.2%
Return on average assets managed (pre-tax)	16.8%	20.4%	21.1%	21.8%	21.9%

	2014 Rm	2013 Rm	2012 Rm	2011 Rm	2010 Rm
Margins					
Gross profit margin	**36.7%**	38.3%	38.9%	36.3%	34.9%
Operating profit margin	**21.8%**	24.2%	23.5%	23.0%	22.1%
Productivity					
Number of stores	**636**	619	602	582	548
Revenue per store (R'000)	**8 305**	8 381	8 069	7 865	7 501
Operating profit per store (R'000)	**1 814**	2 025	1 892	1 808	1 655
Average number of employees (permanent employees only)	**7590**	7398	7062	6842	6 668
Revenue per employee (R'000)	**696**	701	688	669	616
Operating profit per employee (R'000)	**152**	169	161	154	136
Trading space (sqm)	**221 336**	226 866	229 542	231 184	225 891
Revenue per sqm (R)	**23 863**	22 866	21 161	19 801	18 197
Operating profit per sqm (R)	**5 214**	5 526	4 962	4 553	4 016
Inventory turn (times)	**4.7**	5	5.1	5.7	6.0
Credit ratios					
Credit sales %	**72.3%**	75.3%	71.4%	71.4%	68.5%
Bad debts as a % of net debtors	**9.4%**	7.3%	8.3%	7.4%	8.3%
Debtors costs as a % of net debtors	**11.6%**	9.4%	10.8%	10.2%	10.9%
Debtors impairment provision as a % of net debtors	**18.6%**	17.4%	18.0%	16.8%	16.0%
Satisfactory paid accounts as a % of net debtors	**68.3%**	69.4%	72.1%	74.5%	72.7%
Arrear instalments on satisfactory paid accounts as a % of net debtors	**8.6%**	8.6%	10.3%	10.1%	9.3%
Arrear instalments on slow paying and non-performing accounts as a % of net debtors	**22.6%**	21.1%	21.9%	19.9%	19.8%
Doubtful debts provision on non-performing accounts	**69.7%**	67.9%	76.9%	78.8%	74.9%
Credit applications decline rate %	**38.4%**	36.5%	33.0%	31.5%	27.5%
Solvency and liquidity					
Financing cover (times)	**12.5**	14.2	19.5	12.3	8.1
Gearing ratio (%)	**23.9%**	29.8%	23.3%	26.8%	27.5%
Current ratio (times)	**4.5**	6	4.7	3.4	3.5
Share performance					
Earnings per share (cents)	**948.8**	1027.3	905	807.2	672.0
Headline earnings per share (cents)	**921.1**	1007.8	882.5	781.1	642.6
Cash flow per share (cents)	**1 048.8**	713.0	1099.2	881.0	543.3
Net asset value per share (cents)	**6 012.1**	5 481.2	4 828.1	4 225.1	3 718.8
Share price:					
Closing price	**58.00**	64.63	76.20	74.50	56.50
High	**73.00**	78.84	89.00	85.00	61.30
Low	**52.01**	62.58	66.15	56.00	40.06
Normalised price-earnings ratio	**6.1**	6.3	8.4	9.2	8.4
Dividends per share for the financial year (cents)	**517**	514	442	363	323
Dividend payout ratio	**60.2%**	55.5%	54.1%	50.0%	53.6%
Number of shares in issue (million)	**98.1**	98.1	98.1	98.1	98.1
Volume of shares traded (million)	**88.2**	79.9	79.9	68.5	95.9
Value of shares traded (million)	**5 455.1**	5 618.7	6 190.8	4 576.5	4 911.4
Market capitalisation (million)	**5 687**	6 337	7 472	7 305	5 540
Number of shareholders	**3 930**	4 767	4 173	6 161	1 968

Explanatory Notes:

1. All ratios are based on figures at the end of the period unless otherwise disclosed.
2. The 2010 cash flow statement has been restated to exclude of the short-term portion of long-term borrowings
3. 2013 to 2014 figures have been restated for the revised IAS 19 (Retirement Benefits)
4. Total assets exclude the deferred tax asset.

Executive team

Directors	
Johan Enslin (40) Chief Executive Officer and Executive Director of Lewis Group 21 years' service	**Les Davies** (58) CA (SA) Chief Financial Officer and Executive Director of Lewis Group 28 years' service
Neil Jansen (42) MBL, Diploma in Labour Law Human Resources Director 6 years' service	**Derek Loudon** (51) Merchandising Director 14 years' service

General managers and senior executives	
André Strydom (42) General Manager Operations: Lewis Stores 15 years' service	**Arno Geldenhuys** (37) General Manager: Human Resources 15 years' service
Faan Fick (49) General Manager: Property 10 years' service	**Gary Nuttal** (50) Marketing Manager 17 years' service
Gregg Abrahams (35) General Manager: Information Technology 13 years' service	**Jacques Bestbier** (41) CA (SA) General Manager: Administration 2 years' service
Johann Meyer (50) General Manager Operations: Lewis Stores 29 years' service	**Johan Steenkamp** (55) General Manager Operations: Best Home and Electric 34 years' service
Justin Bouwer (43) CA (SA) General Manager: Administration and Chief Risk Officer 2 years' service	**Lambert Fick** (41) CA (SA) General Manager: Credit 4 years' service
Marlene McConnell (37) B.Proc, LLB, LLM, Admitted Attorney Company Secretary 6 years' service	**Morné Mostert** (41) CA (SA) General Manager: Finance 14 years' service
Rinus Oliphant (39) General Manager Operations: Lewis Stores 16 years' service	**Vince van der Merwe** (46) B.Accounting(Hons), BBA (Hons) Chief Audit Executive 15 years' service

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:

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

It is an active strategy to focus on increasing sales of the higher margin furniture and appliance product categories.

Merchandise sourcing

Products are sourced from a wide range of local and international suppliers to ensure that customers are offered exclusive product ranges.

Products are sourced to meet the specific needs of the group's lower to middle income group customer base. The offering includes branded merchandise which is appealing to the target market, selling more contemporary lines in each furniture category to attract younger customers and furniture ranges which are suitable 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 27.8% 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 distribution

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 markdowns. It also significantly improves service levels as stores are able to make an average of 90% of deliveries within 24 hours of the sale.

> "The focus is on providing customers with quality, exclusive and differentiated furniture ranges."

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.

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 markdowns. It also significantly improves service levels as stores are able to make an average of 90% of deliveries within 24 hours of the sale.

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 494 stores, including 57 stores in Botswana, Lesotho, Namibia and Swaziland.

Conventional stores average 450m^2 and the smaller format stores 250m^2. The smaller format store, introduced five 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 on the electronic catalogue and display screens in-store. Lewis now has 130 small format stores in its portfolio, an increase of 43 stores from last year.

Financial and operating performance		**2014**	2013	2012
Revenue	**Rm**	**4 400.0**	4 318.8	4 083.8
Revenue growth	**%**	**1.9**	5.8	6.0
Merchandise sales	**Rm**	**2 004.6**	2 039.7	1 971.0
Merchandise sales growth	**%**	**(1.7)**	3.5	3.6
Credit sales	**%**	**72.2**	75.6	72.1
Operating profit	**Rm**	**962.9**	1 053	985.1
Operating profit margin	**%**	**21.9**	24.4	24.1
New stores opened		**19**	12	17
Total stores		**494**	477	468
Total trading space	**m^2**	**198 032**	203 458	206 205
Annual revenue per m^2	**R'000**	**22.2**	21.2	19.8

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 LSM 4 to 7 group.

The electronic catalogue is used extensively to market furniture ranges and furniture now accounts for 36.7% of sales in the chain.

Stores are smaller than Lewis stores and average 150 m^2, being located mainly in high traffic areas with high trading densities.

Financial and operating performance		**2014**	2013	2012
Revenue	**Rm**	**755.6**	736.9	653.5
Revenue growth	**%**	**2.5**	12.8	11.0
Merchandise sales	**Rm**	**336.5**	350.9	318.0
Merchandise sales growth	**%**	**(4.1)**	10.4	10.6
Credit sales	**%**	**74.1**	75.9	70.0
Operating profit	**Rm**	**175.9**	186.1	145.6
Operating profit margin	**%**	**23.3**	25.3	22.3
New stores opened		**1**	11	12
Total stores		**129**	129	118
Total trading space	**m^2**	**18 100**	18 204	16 881
Annual revenue per m^2	**R'000**	**41.7**	40.4	38.7

My Home

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

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 400m² and are located mainly in high traffic areas.

Financial and operating performance		2014	2013	2012
Revenue	Rm	126.1	131.9	119.9
Revenue growth	%	(4.4)	9.9	(11.6)
Merchandise sales	Rm	68.1	79.6	76.4
Merchandise sales growth	%	(14.5)	4.1	(24)
Operating profit	Rm	15.3	14.5	8.3
Operating profit margin	%	12	11	7
Total stores		13	13	16
Total trading space	m²	5 204	5 204	5 579
Annual revenue per m²	R'000	24.2	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.

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.

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

The National Credit Act Amendment bill has been approved and amends S106 of the Act giving the Minister of Trade and Industry together with the Minister of Finance, the power to prescribe a limit to the cost of credit insurance insodoing capping credit life and/or asset cover. The industry is awaiting the commencement of a consultative process with government. Lewis supports the speedy resolution of this long outstanding matter.

An update on the regulatory environment relating to insurance is included in the Chairman's Report on page 18.

Credit report

South African consumers have remained under pressure from rising costs, high levels of indebtedness and widespread labour market instability. The performance of the group's debtors' book reflects the deteriorating credit climate and the increasingly challenging credit collection environment.

The group's centralised credit granting and decentralised collection processes are a core strength in managing credit risk and debtor costs in the current tight consumer environment.

Credit policies were consistently applied during the year and the credit application decline rate increased from 36.5% to 38.4%. This highlights the high levels of unsecured credit and the overall indebtedness of consumers. Credit sales decreased from 75.3% of total sales in 2013 to 72.3% in 2014, well within the group's target of 70-75% total sales.

Debtor costs as a percentage of net debtors increased from 9.4% to 11.6%. This represents a 30% increase from 2013 and is consistent with the growth reported at the interim results stage.

An analysis of the group's debtors' book based on payment ratings shows that 68.3% of customers are in the "satisfactory paid" category compared to 69.4% the previous year. This slight decline can be largely attributed to customers being impacted by continuing widespread labour market instability. Non-performing accounts increased from 14.1% to 15.7% 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. These accounts continue to attract impairment provision until fully provided for.

The group remains adequately provided with a 18.6% impairment provision. This compares to average debtor costs of between 9% and 12% over the last four years.

Credit ratios and statistics

		2014	2013	2012
Credit sales as % of total sales	%	72.3	75.3	71.4
Net debtors	Rm	6 070.1	5 718.5	4 858.2
Increase in net debtors	%	6.1	17.7	7.5
Debtors' impairment provision	Rm	1 129.5	997.2	875.2
Debtors' impairment provision as % of net debtors	%	18.6	17.4	18.0
Debtors' costs	Rm	702.4	539.6	522.3
Debtors' costs as a % of net debtors	%	11.6	9.4	10.8
Bad debts as a % of net debtors	%	9.4	7.3	8.3
Satisfactory paid accounts	%	68.3	69.4	72.1
Arrear instalments on satisfactory paid accounts as a % of net debtors	%	8.6	8.6	10.3
Arrear instalments on slow-paying and non-performing accounts as a % of net debtors	%	22.6	21.1	21.9
Credit application decline rate	%	38.4	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.

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 at time of sale 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% in 2012 to 47.2% in 2013 and to 50.9% in 2014, evidence of the increasing costs pressures facing customers. This compares favourably with the national average of 74%.

Credit collection

Lewis operates a decentralised credit collection process, with store based follow-up and cash collection. A fully integrated IT system supports administration of the store collection process. This decentralised model has proven to be highly 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 focus on credit collections has been intensified in 2014 resulting in increased levels of productivity.

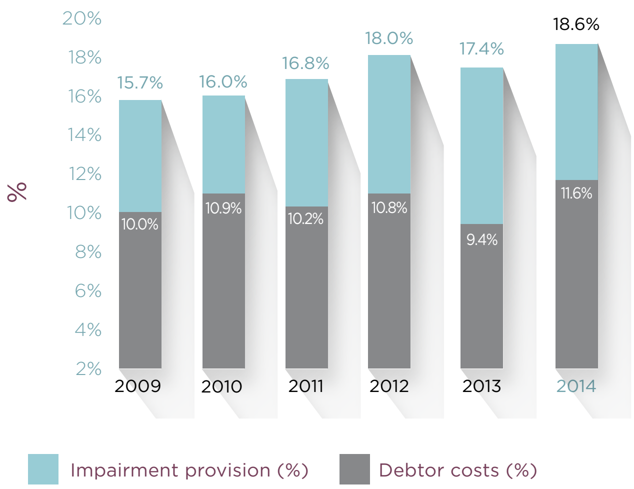
Credit report (continued)

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.

Debtor's payment analysis		Number of customers			Distribution of impairment provision	
		2014	2013		**2014**	2013
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	**463 048**	478 093	R	**22.9**	27.5
	%	**68.3%**	69.4%	%	**2%**	2.8%
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: 12% to 79%)	No	**56 876**	58 155	R	**121.3**	111.4
	%	**8.4%**	8.5%	%	**10.8%**	11.2%
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: 23% to 90%)	No	**51 640**	55 202	R	**180.0**	177.9
	%	**7.6%**	8.0%	%	**15.9%**	17.8%
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: 33% to 100%)	No	**106 545**	97 093	R	**805.3**	680.4
	%	**15.7%**	14.1%	%	**71.3%**	68.2%
Totals	No	**678 109**	688 543	R	**1 129.5**	997.2
Total impairment provision % of net debtors				%	**18.6%**	17.4%

Debtor costs vs Impairment provision (%)



Governance

Remuneration report

Remuneration policy

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 people while still managing employment costs effectively

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 any discussion on their own performance or remuneration.

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 is 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 Report each year. Detail on performance relative to these targets is included on page 27. 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 2.16% 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% to 95.0% of budgeted net profit	40% vesting
95.1% to 99.9% of budgeted net profit	70% vesting
100% of budgeted net profit	100% vesting

Performance against targets for the past three years

	2013	2012	2011
Net profit before taxation target (Rm)	1 252	1 146	962
Actual result (Rm)	**1 269**	**1 168**	**1 043**
Vesting %	100%	100%	100%

Remuneration report (continued)

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 schemes

In 2009 the Remuneration Committee approved a long-term retention scheme for senior executives. In terms of this scheme, Lewis Group must maintain its operating profit margin above 20% for five consecutive years, with each year assessed independently.

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. The executive must be employed with the group at the vesting date.
This scheme ends in November 2014.

Performance against targets for the past four years

	Year 4 September 2013		Year 3 September 2012		Year 2 September 2011		Year 1 September 2010	
	Mar	Sep	Mar	Sep	Mar	Sep	Mar	Sep
Actual profit margin %	**24.2%**	**20.6%**	**23.5%**	**21.4%**	**23.0%**	**21.9%**	**22.1%**	**22.0%**
Profit margin % target	20%		20%		20%		20%	

At the second vesting date of 30 September 2013, the second tranche of one third of the share awards vested as follows:

Executive	Total Share Award	Vesting %	September 2013 Vesting
Johan Enslin	120 000	**33.3%**	40 000
Les Davies	80 000	**33.3%**	26 667

In 2013 the Remuneration Committee approved a new five-year long-term retention scheme for senior executives. The criteria for this scheme is that Lewis Group must achieve compound growth of 6% in attributable profit to ordinary shareholders (adjusted to exclude the STC cost in prior years) for the preceding five years at the point of vesting in year three, four and five. One third of the awards vest each year from the third anniversary date of the award to the fifth anniversary date. The executive must be employed with the group at vesting date.

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 is 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 benchmarked 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 reporting for 2014

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 2013, and was approved by the majority of shareholders. Shareholders also approved the fees payable to non-executive directors for the 2014 financial year.

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	Pension contributions	Medical aid contributions	Total guaranteed pay	Bonuses paid	Executive performance Scheme		Co-Investment scheme	Total remuneration
2014						5yrs§	3yr+	**	
Johan Enslin	3 019	483	98	3 599	1 604	2 608	2 394	1 501	11 707
Les Davies	2 333	373	92	2 799	1 262	1 739	1 962	1 356	9 117
Total	5 352	856	190	6 398	2 866	4 347	4 356	2 857	20 824
2013									
Johan Enslin	2 790	446	88	3 324	1 641	2 780	2 603	1 046	11 394
Les Davies	2 195	351	100	2 646	1 315	1 853	2 612	976	9 402
Total	**4 985**	**797**	**188**	**5 970**	**2 956**	**4 633**	**5 215**	2 022	20 796

* The bonuses paid in the current financial year relate to the achievement of the performance targets for the 2013 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 2010, having achieved the performance targets for the financial years 2011, 2012 and 2013 (refer to page 45)

§ 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 46)

** The gain in the current financial year under the Co-investment Scheme relates to the bonus earned for the financial year 2010, which was invested in the company's shares by the executives for the last three years to March 2013.

Remuneration report (continued)

Outstanding share awards

2014		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	40 000	26 666	66 666			
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
June 2013	three-year award	50 232	38 819	89 051	25 917	20 390	46 307
June 2014	five-year award	120 000	90 000	210 000			
Total		279 541	210 473	490 014	76 586	61 509	138 095

In terms of the Lewis Co-investment Scheme, the Trust holds 82 856 shares (2013: 82 581 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 2014 financial year

Executive Performance Scheme		Date awarded	Shares awarded	Shares forfeited	Shares vested	Gains on share awards R'000
Johan Enslin	three-year award	June 2010	38 429	–	38 429	2 394
	five-year award	Sep 2009	40 000	–	40 000	2 608
Les Davies	three-year award	June 2010	31 494	–	31 494	1 962
	five-year award	Sep 2009	26 667	–	26 667	1 739
Total			**136 590**	–	**136 590**	**8 703**
Co-investment Scheme						
Johan Enslin		June 2010	24 092	–	24 092	1 501
Les Davies			21 757	–	21 757	1 356
Total			45 849	–	45 849	2 857

Non-executive directors' fees

Director (R'000)	2014	2013
David Nurek	**999**	926
Fatima Abrahams	**576**	516
Zarina Bassa	**476**	447
Sizakele Marutlulle	**476**	447
Hilton Saven	**891**	836
Alan Smart	**788**	674
Ben van der Ross	**530**	499
Total	**4 736**	**4 345**

Proposed non-executive director fees for 2014

Board/committee position (R'000)	Proposed fees for 2015	Fees paid for 2014
Non-executive chairman	**490**	475
Non-executive director	**234**	227
Audit Committee chairman	**240**	233
Audit Committee member/invitee	**103**	100
Risk Committee chairman	**114**	110
Risk Committee member	**72**	69
Remuneration Committee chairman	**114**	110
Remuneration Committee member	**57**	55
Nomination Committee chairman	**77**	75
Nomination Committee member	**33**	32
Social, Ethics and Transformation Committee chairman	**114**	110
Social, Ethics and Transformation Committee member	**57**	55

Directors' shareholding

At 31 March 2014 the directors' beneficial direct and indirect interest in the company's issued shares was as follows:

	2014		2013	
Director	Direct	Indirect	Direct	Indirect
David Nurek	**–**	**20 000**	–	10 000
Hilton Saven	**–**	**6 440**	–	2 940
Alan Smart	**319 070**	**–**	319 070	–
Johan Enslin	**45 000**	**45 951**	20 000	44 856
Les Davies	**188 490**	**36 905**	141 185	37 725
Total	**552 560**	**109 296**	**480 255**	**95 521**

Corporate governance report

Lewis Group strives to maintain a culture of good governance based on the principles of integrity, transparency and accountability in its dealings with all stakeholders.

Governance structures and processes across the group are regularly reviewed to meet legislative and regulatory compliance, and to ensure the long-term sustainability of the business.

King III governance code

The directors confirm that the group has applied the principles of the King Report on Corporate Governance (King III). A detailed schedule of the application of the King III principles is available on the group's website. 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 processes have been implemented:

- Principle 6.4 recommends the appointment of an independent compliance officer. 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 is satisfied that the legal and compliance framework operates effectively.
- Principle 9.3 requires sustainability reporting and disclosure to be independently assured. Specific sustainability elements, including the broad-based black economic empowerment scorecard and carbon emissions, have been verified by accredited agencies. Management plans to expand the external verification of sustainability indicators in 2015 and obtain independent assurance.

BOARD OF DIRECTORS

Board charter

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

- contributing to and approving the strategy;
- 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;
- overseeing relationships with stakeholders of the company along sound governance principles;
- ensuring that the company is playing its role as responsible corporate citizen;
- 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 20 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	***Executive directors***
David Nurek	Johan Enslin
Fatima Abrahams	Les Davies
Zarina Bassa	
Sizakele Marutlulle	
Hilton Saven	
Alan Smart	
Ben van der Ross	

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.

Non-executive directors are invited to serve on the board based on their knowledge, experience, independence and ability to contribute to board level debate.

Independence of directors

The independence of long-serving non-executive directors is reviewed annually by the nominations committee, as recommended by King III. Based on the outcome of this review, the Board was satisfied that these directors exercise independent judgement and act in an independent manner. The seven non-executive directors, including the chairman, all met the independence criteria for the 2014 financial year.

Directors who have been in office for more than nine years are subject to a rigorous evaluation in relation to performance and independence.

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.

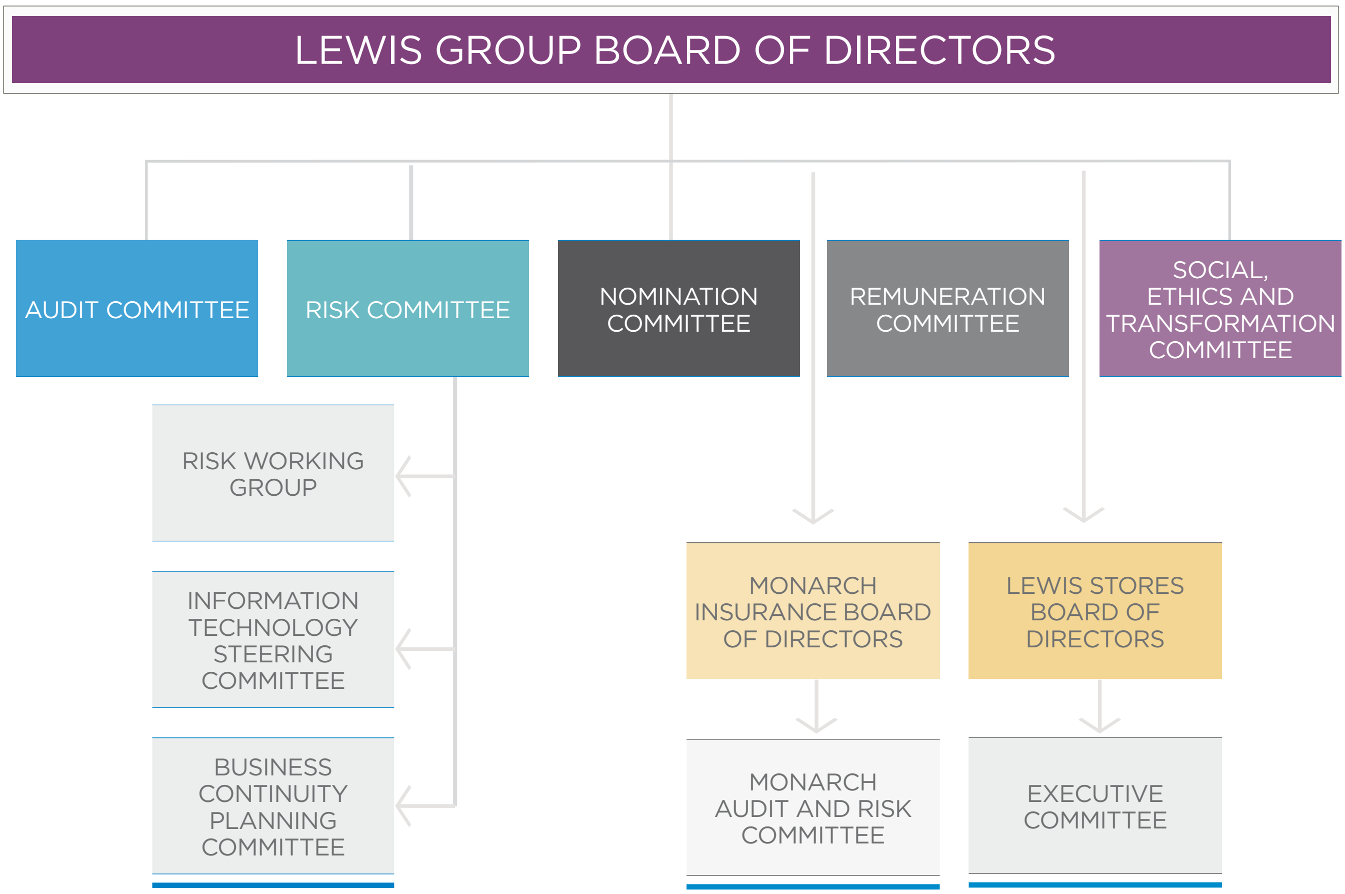
Company secretary

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.

The board conducted a formal evaluation of the company secretary, as required by the JSE Listings Requirements. The directors are satisfied that the company secretary has the requisite competence, qualifications and experience to perform the role.

GOVERNANCE STRUCTURE



Board committees

The board of directors has delegated specific responsibilities to five board committees:

- Audit Committee
- Risk Committee
- Nomination Committee
- Remuneration Committee
- Social, Ethics and Transformation Committee

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.

Board and committee attendance

	Board	Audit	Risk	Remuneration	Nomination	Social, Ethics and Transformation
Number of meetings	5	4	4	2	2	2
Non-executive directors						
D M Nurek	5+	4°	4	2	2+	2
F Abrahams	4	3	3	2	2	2+
Z Bassa	5	4	4	2	2	–
S Marutlulle	5	4	4	2	2	–
H Saven	5	4+	4+	2	2	–
A J Smart	5	4°	4	2	2	2
B J van der Ross	4	3°	3	2+	2	–
Executive directors						
J Enslin	5	4°	4	2°	2°	2
L A Davies	5	4°	4	–	–	–

+ Chair ° By invitation

Other governance structures

Lewis Stores (Proprietary) Limited

Lewis Stores is the main trading subsidiary of the group and operational responsibility has been delegated to the Lewis Stores board of directors for the ongoing management of the business. The directors of Lewis Stores are supported by the following governance committees:

- Executive Committee comprising the directors of Lewis Stores and heads of key areas of operation within Lewis.
- Risk Working Group (refer below to the Risk management section in this report).
- Information Technology Steering Committee
- Business Continuity Planning Steering Committee.

Monarch Insurance Company Limited

Monarch is the group's wholly-owned short-term insurance company. The directors of Lewis Group have delegated operational responsibility to the board of directors of Monarch, which is supported in its oversight responsibilities by an Audit and Risk Committee.

The Monarch board is chaired by Alan Smart and consists of four non-executive directors and one executive director.

The Monarch Audit and Risk Committee is chaired by Hilton Saven and consists of three non-executive directors. Meetings are attended by the chief financial officer, company secretary, the group's internal audit executive, the chief risk officer and external auditors.

Internal accountability

Risk management

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.

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 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 Strategy and Targets on pages 10 to 13. 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 2015, 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.

Personal share dealings

An insider trading policy restricts directors and specific 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 National Credit Act policy review framework for consideration by the National Credit Regulator.

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 is a formal sub-committee of the board operating in compliance with the requirements of the Companies Act. The committee assists the directors in monitoring the group's activities relating to sustainability, ethics, stakeholder engagement, empowerment and transformation.

The group qualified for inclusion in the JSE Socially Responsible Investment (SRI) Index for the third successive time in the 2014 financial year. 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.

Responsibilities of the committee

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 Black 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 the transformation programme

— Determining targets in terms of the Codes of Good Practice of the Department of Trade and Industry (DTI)

— Reviewing 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 20 and 21. The effectiveness of the committee is assessed as part of the annual board and committee evaluation process.

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.

Transformation

The group supports the principles and objectives of broad-based BEE 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 assigned a level 4 B-BBEE contributor status in June 2013 which has been verified by AQRate, an accredited empowerment rating agency. The 2014 scorecard will be verified in June 2014.

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	2013	2012	2011
Equity ownership	20	**11.1**	10.5	0
Management control	10	**4.7**	4.7	4.5
Employment equity	15	**6.1**	5.9	8.3
Skills development	15	**11.7**	11.5	7.9
Preferential procurement	20	**18.0**	16.6	18.5
Enterprise development	15	**15.0**	15.0	15.0
Socio-economic development	5	**5.0**	5.0	5.0
Total	**100**	**71.6**	**69.2**	**59.1**
B-BBEE contributor status		**Level 4**	Level 4	Level 5

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 90.7% of the staff complement, with females comprising 56.2%.

The employment equity profile of the workforce in South Africa (excluding neighbouring countries) at 31 March 2014 is contained in the following table:

Employee profile

Occupational levels	Male			Female				Male	Total
	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	22	32
Professionally qualified	25	8	2	18	20	3	38	66	180
Skilled technical	191	60	7	199	135	14	145	74	825
Semi-skilled	1 822	569	10	2 102	782	41	245	28	5 599
Unskilled	21	9	0	7	6	0	0	0	43
Non-permanent	0	0	0	0	0	0	0	0	0
Total	**2 062**	**649**	**19**	**2 326**	**944**	**59**	**431**	**194**	**6 684**

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 6 393 training interventions were completed in 2014, far exceeding the target of 3 000. Black staff accounted for 84.2% of total employees trained. In the past year the internship programme was extended to include 421 students.

The group also offers 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.

Social ethics and transformation report (continued)

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 provided to enterprise development partners includes raw material sourcing, product development and design, quality control, and 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.

Socio-economic development

The group is committed to contributing to the communities where customers live. Many of these communities are affected by a lack of education, poverty and poor health.

Community investment is focused on education, welfare and health. In the past year R9.7 million was committed to socio-economic development, an increase of 5.4% 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 engagement projects in other Southern African countries where the group operates; and

— Bursaries to universities and other tertiary institutions

Primary projects

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 R550 000 per year towards operational costs.

Rotary Club/Early Development Centres in collaboration with The Rotary Club of Claremont, the group has upgraded and refurbished three early development centres in the Brown's Farm area of Philippi, Western Cape.

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 Run in Cape Town. The group continues to fund capacity building and training programmes where NGO's 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.

Employee community engagement

Employees are encouraged to propose deserving local community projects. This ensures that staff are involved in assisting communities that support the company and creates staff awareness of CSI projects. These projects included AIDS orphans, homes, shelters for abused/vulnerable children, disabled children's homes, educational support for the underprivileged, feeding schemes/soup kitchens for the underprivileged, homes for the aged/hospices/home-based care programmes, and informal organisations which support communities in terms of shelter, medical assistance, education, training and development.

Bursaries

Internal bursaries

Bursaries are granted to the children of staff for school and university education. School children receive R500 each and the top 22 university student applications for bursaries each receive up to R50 000 based on merit.

TSiBA

TSiBA Education is a private provider of higher education in business. TSiBA targets scholars and potential students that would otherwise not have access to tertiary level education, by offering full tuition scholarships. Lewis funds scholarships for the top ten students from their first year to the final year. Ten beneficiaries have already graduated.

Environmental sustainability

The group is currently 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. Independent verification was obtained from a chemical engineer for the carbon disclosure project.

— Scope 1 is the direct impact of the group's activities – fuel combustion in company vehicles.

— Scope 2 is 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	2014 Emissions (tonnes CO2e)	% Change	2013 Emissions (tonnes CO2e)	2012 Emissions (tonnes CO2e)
Scope 1	South African fuel	**20 886**	4.9%	19 911	21 646
	International fuel	**2 550**	2.7%	2 483	2 336
	Total Scope 1	**23 436**	**4.7%**	**22 394**	**23 983**
Scope 2	South African electricity	**23 890**	2.8%	23 240	24 082
	International electricity	**1 632**	2.8%	1 588	1654
	Total Scope 2	**25 522**	2.8%	24 828	25 736
TOTAL SCOPE 1 & 2		**48 958**	**3.7%**	**47 222**	**49 718**
Scope 2 – GECs		**–**	n/a	–	(655)
TOTAL SCOPE 1 & 2 (Incl GECs)		**48 958**	**3.7%**	**47 222**	**49 063**

The results show an overall increase in emissions with a 4.7% increase in scope 1 emissions and a 2.8% increase in scope 2 emissions over 2013 levels.

Social ethics and transformation report (continued)

Carbon footprint results for selected Scope 3 emissions

Scope 3 Category	Emission Source	Comments	2014 Emissions (tonnes CO2e)	% Change	2013 Emissions (tonnes CO2e)
Fuel and Energy	Upstream emissions from synfuel production	Complete assessment	**22 538**	5.9%	21 286
Upstream transportation and distribution	Outsourced road distribution within South Africa	Partial assessment – excludes shipping	**3 410**	3.1%	3 309
Business travel	Domestic and international flights	Complete assessment	**234**	14.7%	204
	Car hire	Complete assessment	**89**	11.3%	80
Employee commuting	Staff transport emissions travelling to and from work	Average data method used	**4 450**	6.0%	4 198

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 areas of fuel consumption, electricity and water consumption, material usage reduction, and recycling paper and packaging materials.

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 includes the Ten Principles of the United Nations Global Compact. This code of conduct is 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.

Abridged consolidated financial statements

Abridged consolidated financial statements

Introduction

The abridged consolidated financial statements on pages 68 to 76 are derived from the audited consolidated financial statements for the year ended 31 March 2014. 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 2014, 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 Listings Requirements.

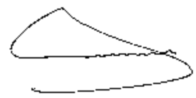
The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for maintaining adequate accounting records and an effective system of risk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

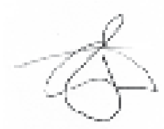
The auditors are responsible for reporting on whether the abridged consolidated financial statements, derived from the audited consolidated financial statements, are consistent, in all material respects, with those audited consolidated financial statements.

Approval of the abridged consolidated financial statements

The audited consolidated financial statements, including these abridged consolidated financial statements set out on pages 68 to 76, 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

Audit committee report

The Audit Committee ("the committee") has pleasure in submitting its report for the year ended 31 March 2014 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 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 consists of three independent non-executive directors:

H Saven (chairman)

Z B M Bassa

B J van der Ross

Biographical details of the committee members are provided on page 20 of the integrated report. Fees paid to the committee members are outlined in the table of directors' remuneration on page 49 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 52 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 and material judgements applied.

- 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 report and the reporting process.

  - considered the company's integrated 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 report is materially accurate, complete and reliable and consistent with the annual financial statements.
  - the committee has, at its meeting held on 26 May 2014, recommended the integrated report for the year ended 31 March 2014 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 2014 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 cooperation 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 2014 financial year.

Hilton Saven
Chairman
Audit Committee

28 May 2014

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 494 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.

The financial results and affairs of the group are reflected in the abridged consolidated financial statements set out on pages 67 to 76.

Segmental analysis

Segmental information is set out in the segmental report on page 72 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 (refer note 8.1 and 8.2 in the annual financial statements for more detail).

Dividends

The following dividends have been declared or proposed for the financial year ended 31 March 2014:

	Dividend per share	Date declared	Payable
Interim – declared	215 cents	11 November 2013	27 January 2014
Final – proposed	302 cents	28 May 2014	21 July 2014
Total for the year	517 cents		

Notice is hereby given that a final gross cash dividend of 302 cents per share in respect of the year ended 31 March 2014 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 11 July 2014
Date trading commences "ex" dividend	: Monday 14 July 2014
Record date	: Friday 18 July 2014
Date of payment	: Monday 21 July 2014

Share certificates may not be dematerialised or rematerialised between Monday 14 July 2014 and Friday 18 July 20142, 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:

- A J Smart
- H Saven
- F Abrahams

Company secretary

M G 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 2014 the directors' beneficial direct and indirect interest in the company's issued shares were as follows:

	2014		2013	
Director	Direct	Indirect	Direct	Indirect
D M Nurek	–	20 000	–	10 000
H Saven	–	6 440	–	2 940
A J Smart	319 070	–	319 070	–
J Enslin	45 000	45 951	20 000	44 856
L A Davies	188 490	36 905	141 185	37 725
Total	552 560	109 296	480 255	95 521

The following share awards have been made to directors:

J Enslin	356 127
L A Davies	271 982

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

Subsidiary companies

Details of the company's subsidiaries are set out on page 62 of the annual financial statements.

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

	2014 Rm	2013 Rm
Profit	863.1	914.6
Losses	–	–

Borrowing powers

Borrowings were R1 758.0 million at 31 March 2014 (2013: R1 505.5 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 auditors' 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 2014, and the abridged consolidated income statement, changes in equity and cash flows for the year then ended, and related notes, as set out on pages 67 to 76, are derived from the audited consolidated financial statements of Lewis Group Limited for the year ended 31 March 2014. We expressed an unmodified audit opinion on those consolidated financial statements in our report dated 28 May 2014.

The abridged consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards 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 2014 are consistent, in all material respects with those consolidated financial statements, in accordance with the requirements of section 8.57 of the JSE Limited Listings Requirements.

The Other Matter paragraph in our audit report dated 28 May 2014 states that as part of our audit of the consolidated financial statements for the year ended 31 March 2014, 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: 28 May 2014

Abridged consolidated financial statements

These abridged consolidated financial statements are a summary of the audited annual financial statements of the group for the year ending 31 March 2014. The audited annual financial statements were prepared by the group's Finance Department under the supervision of the chief financial officer, L A Davies CA (SA). A copy of the full set of audited annual financial statements is available on www.lewisgroup.co.za or is available on request from the company secretary.

Income statement for the year ended 31 March 2014

	Notes	Group 2014 Rm	Group 2013 Restated Rm
Revenue		5 281.7	5 187.6
Merchandise sales		2 409.1	2 470.3
Finance charges and initiation fees earned		1 208.9	1 082.6
Insurance revenue		975.5	994.7
Ancillary services		688.2	640.0
Cost of merchandise sales	3	(1 524.4)	(1 523.1)
Operating costs		(2 603.3)	(2 410.9)
Employment costs	4	(818.9)	(786.0)
Administration and IT		(217.1)	(202.8)
Debtor costs	5	(702.4)	(539.6)
Marketing		(173.1)	(191.2)
Occupancy costs		(245.2)	(232.7)
Transport and travel		(192.6)	(185.2)
Depreciation		(58.5)	(55.1)
Other operating costs		(195.5)	(218.3)
Operating profit		1 154.0	1 253.6
Investment income		125.8	111.8
Profit before finance costs		1 279.8	1 365.4
Net finance costs		(102.7)	(96.3)
Interest paid		(116.8)	(105.2)
Interest received		6.5	6.9
Forward Exchange Contracts		7.6	2.0
Profit before taxation		1 177.1	1 269.1
Taxation	6	(334.9)	(357.4)
Net profit attributable to ordinary shareholders		842.2	911.7
Statement of comprehensive income			
Net profit for the year		842.2	911.7
Movement in other reserves (recycled to income statement on disposal):		60.9	95.0
Fair value adjustment to available-for-sale investments		71.5	103.7
Disposal of available-for-sale investments		(23.9)	(15.3)
Foreign currency translation reserve		13.3	6.6
Retirement benefit remeasurements		30.5	0.2
Other comprehensive income		91.4	95.2
Total comprehensive income for the year attributable to equity shareholders		933.6	1 006.9

Earnings and dividends per share for the year ended 31 march 2014

		Group	
		2014	2013 Restated
1.	**Weighted average no. of shares**		
	Weighted average	88 762	88 749
	Diluted weighted average	89 614	89 612
2.	**Headline earnings (Rm)**		
	Attributable earnings	842.2	911.7
	Profit on disposal of assets and investments	(24.6)	(17.3)
	Headline earnings	817.6	894.4
3.	**Earnings per share (cents)**		
	Earnings per share	948.8	1 027.3
	Diluted earnings per share	939.8	1 017.4
4.	**Headline earnings per share (cents)**		
	Headline earnings per share	921.1	1 007.8
	Diluted headline earnings per share	912.4	998.1
5.	**Dividends per share (cents)**		
	Dividends paid per share		
	Final dividend 2013 (2012)	302.0	270.0
	Interim dividend 2014 (2013)	215.0	212.0
		517.0	482.0
	Dividends declared per share		
	Interim dividend 2014 (2013)	215.0	212.0
	Final dividend 2014 (2013)	302.0	302.0
		517.0	514.0

Balance sheet as at 31 March 2014

		Group	
		2014	2013
			Restated
	Notes	Rm	Rm
Assets			
Non-current assets			
Property, plant and equipment		327.3	332.6
Deferred taxation		0.6	0.6
Retirement benefit asset		79.7	22.8
Insurance investments	7	1 415.0	1 238.3
		1 822.6	1 594.3
Current assets			
Inventories		324.6	305.8
Trade and other receivables	8	5 078.9	4 840.9
Insurance investments	7	283.7	465.9
Cash on hand and deposits		480.1	59.5
		6 167.3	5 672.1
Total assets		7 989.9	7 266.4
Equity and liabilities			
Capital and reserves			
Share capital and premium		109.2	88.4
Other reserves		436.1	397.8
Retained earnings		4 796.5	4 361.1
		5 341.8	4 847.3
Non-current liabilities			
Long-term interest bearing borrowings		1 000.0	1 250.0
Deferred taxation		173.5	154.5
Retirement benefit liability		92.9	75.3
		1 266.4	1 479.8
Current liabilities			
Trade and other payables		227.9	211.7
Reinsurance and insurance liabilities		388.7	472.1
Taxation		7.1	–
Short-term interest-bearing borrowings		758.0	255.5
		1 381.7	939.3
Total equity and liabilities		7 989.9	7 266.4

Statement of changes in equity for the year ended 31 March 2014

	Notes	Group 2014 Rm	Group 2013 Restated Rm
Share capital and premium			
Opening balance		88.4	95.4
Cost of own shares acquired (treasury shares)		(10.7)	(40.1)
Share awards to employees		31.5	33.1
		109.2	88.4
Other reserves			
Opening balance		397.8	277.9
Other comprehensive income for the year		60.9	95.0
Share-based payment		27.0	22.1
Transfer (to)/from retained earnings		(49.6)	2.8
		436.1	397.8
Retained Earnings			
Opening balance		4 361.1	3 909.7
Net profit attributable to ordinary shareholders		842.2	911.7
Distribution to shareholders		(459.3)	(428.2)
Share awards to employees		(28.1)	(30.5)
Transfer from/(to) other reserves		49.6	(2.8)
Profit on sale of own shares		0.5	1.0
Retirement benefit remeasurements		30.5	0.2
		4 796.5	4 361.1
Balance as at 31 March 2014		5 341.8	4 847.3

Cash flow statement for the year ended 31 March 2014

	Group	
	2014	2013
	Rm	Rm
Cash flow from operating activities		
Cash flow from trading	1 360.2	1 526.6
Change in working capital	(429.3)	(893.8)
Cash generated from operations	930.9	632.8
Interest and dividends received	104.1	100.5
Interest paid	(109.2)	(103.2)
Taxation paid	(326.9)	(358.4)
	598.9	271.7
Cash flow from investing activities		
Net disposals/(additions) to insurance investments	87.6	(183.8)
Acquisition of property, plant and equipment	(59.1)	(85.7)
Proceeds on disposal of property, plant and equipment	6.8	12.4
	35.3	(257.1)
Cash flow from financing activities		
Dividends paid	(459.3)	(428.2)
(Decrease)/Increase in long-term borrowings	(250.0)	600.0
Increase/(Decrease) in short-term borrowings	650.0	(200.0)
Purchase of own shares	(10.7)	(40.1)
Proceeds on sale of own shares	3.9	3.8
	(66.1)	(64.5)
Net increase/(decrease) in cash and cash equivalents	568.1	(49.9)
Cash and cash equivalents at the beginning of the year	(96.0)	(46.1)
Cash and cash equivalents at the end of the year	472.1	(96.0)

Analysis of borrowings and facilities		
Borrowings		
Long-term		
Banking facilities	700.0	1 250.0
Domestic Medium-term Note Programme	300.0	–
Short-term		
Banking facilities	550.0	100.0
Domestic Medium-term Note Programme	200.0	–
	1 750.0	1 350.0
Cash and cash equivalents		
Short-term facilities utilised	8.0	155.5
Cash on hand	(480.1)	(59.5)
	(472.1)	96.0
Net borrowings	1 277.9	1 446.0
Unutilised facilities		
Banking facilities	1 272.1	704.0
Domestic Medium-term Note Programme	1 500.0	–
Banking facilities and Domestic Medium Term Note Progamme	4 050.0	2 150.0

Segmental report for the year ended 31 March 2014

Reportable segment	Lewis Rm	Best Home and Electric Rm	My Home Rm	Group Rm
2014				
Segment income statement				
Total revenue to external customers				
Merchandise sales	2 004.5	336.5	68.1	2 409.1
Other revenue	2 395.5	419.1	58.0	2 872.6
	4 400.0	755.6	126.1	5 281.7
Cost of merchandise sales	(1 265.4)	(217.8)	(41.2)	(1 524.4)
Operating costs	(2 171.8)	(361.9)	(69.6)	(2 603.3)
Segment operating profit	962.8	175.9	15.3	1 154.0
Segment operating margin	21.9%	23.3%	12.1%	21.8%
Segment assets (1)	4 421.1	715.3	128.8	5 265.2
Capital expenditure	55.8	2.8	0.5	59.1
Depreciation	52.0	5.5	1.0	58.5
2013 – Restated				
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	(2 008.7)	(333.6)	(68.6)	(2 410.9)
Segment operating profit	1 053.0	186.1	14.5	1 253.6
Segment operating margin	24.4%	25.3%	11.0%	24.2%
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

(1) Segment assets include net instalment sale and loan receivables of R4 940.6 million (2013: R4 721.3 million) and inventory of R324.6 million (2013: R305.8 million).

Geographical	South Africa Rm	BLNS(*) Rm	Total Rm
2014			
Revenue	4 552.4	729.3	5 281.7
Capital expenditure	53.9	5.2	59.1
2013			
Revenue	4 525.8	661.8	5 187.6
Capital expenditure	77.0	8.7	85.7

(*) Botswana, Lesotho, Namibia and Swaziland

Notes to the annual financial statements for the year ended 31 March 2014

1. Basis of reporting

The information contained in these abridged financial statements has been extracted from the group's 2014 audited annual financial statements which has been prepared in accordance with the recognition and measurement principles of International Financial Accounting Standards (IFRS) including IAS 34 (Interim Financial Reporting), and in compliance with the Companies Act of 2008.

The Group's annual financial statements and these abridged consolidated 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 Adoption of IAS 19 (Employee benefits)

With effect from 1 April 2013, the group adopted IAS 19 Employee Benefits (revised 2011) and the subsequently revised IFRIC 14. Below is a summary of the impacts of the revised statement and intepretation:

- the elimination of the "corridor" method under which the actuarial gains and losses were only recognised in the income statement when they exceeded 10% of the funds opening obligation or plan assets. In terms of the revised IAS 19, these actuarial gains and losses are fully accounted for in other comprehensive income in the period in which they arise.
- the revised IAS 19 requires the net interest to be calculated on the net liability/asset using the discount rate at the beginning of the year. The effect is to remove the expected return on plan assets under the previous standard.
- the revised IFRIC 14 defines the retirement benefit asset ceiling as the maximum economic benefit arising from a future unconditional right to a refund and from reductions in future contributions in excesss of the minimum funding requirement.

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

	12 months ended 31 March 2014 Audited Rm	12 months ended 31 March 2013 Restated Audited Rm
Increase in profit before taxation	14.1	6.0
Increase in taxation	(4.0)	(1.7)
Effect on net profit after taxation	10.1	4.3
Increase in earnings per share (cents)	11.4 cents	4.9 cents
Increase in diluted earnings per share (cents)	11.3 cents	4.8 cents
Increase in opening retained earnings	12.7	8.2
Increase in retirement benefit asset	73.3	16.8
Decrease in retirement benefit liability	(0.8)	(1.0)
Increase in deferred taxation	20.8	5.1

To indicate the impact on prior years other than that presented as required by IAS 8, the effect on the 2012 balance sheet is provided below:

Effect on 2012 balance sheet:	Rm
Increase in retained earnings	8.2
Increase in retirement benefit asset	10.2
Decrease in retirement benefit liability	(1.4)
Increase in deferred taxation	3.4

Notes to the annual financial statements for the year ended 31 March 2014
continued

2.2 Reclassification

Unearned finance charges have been reclassified with unearned initiation fees (previously grouped with unearned maintenance income) in accounts receivable (refer note 8) to be in line with the revenue disclosures in the income statement. The comparative information has been restated and the effect on the financial statements is as follows:

Included in accounts receivable note (note 8)	Previously Reported	Currently Reported
Provision for unearned finance charges and initiation fees (previously unearned finance and maintenance charges)	(280.8)	(196.0)
Provision for maintenance charges	–	(214.6)
Provision for initiation fees	(129.8)	–

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

In addition to revised IAS 19 as set out in note 2.1, 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 and financial position. However, additional disclosures were required and, where appropriate, have been made in the group's 2014 audited financial statements.

IFRS 7: Financial Instruments (amendment regarding dislcosure about offsetting of financial assets and liabilities)

IFRS 10: Consolidated financial statements

IFRS 13: Fair value measurement

IAS 1: Presentation of financial statements (amendment regarding OCI disclosures)

3. Cost of merchandise sales

	2014	2013
Purchases	1 543.2	1 547.5
Movement in inventory	(18.8)	(24.4)
Cost of merchandise sales	1 524.4	1 523.1
Merchandise gross profit	884.7	947.2
Gross profit %	36.7%	38.3%

	Group	
	2014	2013 Restated
	Rm	Rm
4. Employment costs		
Salaries, wages, commissions and bonuses	734.3	707.8
Retirement benefit costs	53.1	47.6
Share-based payments	27.0	22.1
Other employment costs	4.5	8.5
	818.9	786.0
5. Debtor costs		
Bad debts, repossession losses and bad debt recoveries	570.1	417.6
Movement in impairment provision	132.3	122.0
	702.4	539.6
Debtor cost as a % of net debtors	11.6%	9.4%

		Group 2014 Rm	Group 2013 Restated Rm
6.	**Taxation**		
6.1	**Taxation charge**		
	Normal taxation	334.0	337.4
	Deferred taxation	0.9	20.0
	Taxation per income statement	334.9	357.4
6.2	**Tax rate reconciliation**		
	Profit before taxation	1 177.1	1 269.1
	Taxation calculated at a tax rate of 28% (2013: 28%)	329.6	355.4
	Differing tax rates in foreign countries	5.0	6.6
	Disallowances and exemptions	7.2	0.5
	Prior years	(6.9)	(5.1)
	Taxation per income statement	334.9	357.4
	Effective tax rate	28.5%	28.2%
7.	**Insurance investments – available for sale**		
	Listed		
	Listed shares	701.9	583.3
	Fixed income securities	713.1	655.0
	Unlisted		
	Money market	283.7	465.9
		1 698.7	1 704.2
	Analysed as follows:		
	Non-current	1 415.0	1 238.3
	Current	283.7	465.9
		1 698.7	1 704.2

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 2014 Rm	Group 2013 Rm
8.	**Trade and other receivables**		
	Instalment sale and loan receivables	7 314.4	6 958.3
	Provision for unearned maintenance income	(211.0)	(214.6)
	Provision for unearned finance charges and unearned initiation fees	(230.6)	(196.0)
	Provision for unearned insurance premiums	(802.7)	(829.2)
	Net instalment sale and loan receivables	6 070.1	5 718.5
	Provision for impairment	(1 129.5)	(997.2)
		4 940.6	4 721.3
	Other receivables	138.3	119.6
		5 078.9	4 840.9

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

The average effective interest rate on instalment sale and loan receivables is 21.1% (2013: 21.5%) and the average term of the sale is 32.5 months (2013: 32.7 months).

Notes to the annual financial statements for the year ended 31 March 2014
continued

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			Distribution of impairment provision	
		2014	2013		2014	2013
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.	463 048	478 093	Rm	22.9	27.5
	%	68.3%	69.4%	%	2.0%	2.8%
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 (2013: 12% to 79%).	No.	56 876	58 155	Rm	121.3	111.4
	%	8.4%	8.5%	%	10.8%	11.2%
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 (2013: 23% to 90%).	No.	51 640	55 202	Rm	180.0	177.9
	%	7.6%	8.0%	%	15.9%	17.8%
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 (2013: 33% to 100%).	No.	106 545	97 093	Rm	805.3	680.4
	%	15.7%	14.1%	%	71.3%	68.2%
Total	No.	678 109	688 543	Rm	1129.5	997.2
Debtors impairment provision as a % of net debtors					18.6%	17.4%

Shareholder's information

Shareholders spread as at 31 March 2014

	No. of shareholders		Number of shares	
	Total	%	Total	%
1 – 1 000 shares	2 424	61.68	1 064 422	1.09
1 001 – 10 000 shares	1 148	29.21	3 608 089	3.68
10 001 – 100 000 shares	245	6.23	8 310 124	8.47
100 001 – 1 000 000 shares	96	2.44	27 415 547	27.96
1 000 001 shares and over	17	0.43	57 659 777	58.80
Total	3 930	99.99	98 057 959	100.00
Distribution of shareholders as at 31 March 2014				
Public:	3 922	99.79	88 142 284	89.89
Unit Trusts/Mutual Funds			40 648 698	41.46
Pension Funds			22 185 250	22.62
Other managed funds			15 119 523	15.42
Other			10 188 813	10.39
Non-public:	8	0.21	9 915 675	10.11
Lewis Stores (Pty) Ltd	1	0.03	9 216 928	9.40
Directors:				
Lewis Group Limited	5	0.13	661 856	0.67
Lewis Stores (Pty) Ltd	2	0.05	36 891	0.04
	3 930	100.00	98 057 959	100.00

Major shareholdings as at 31 March 2014

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 2014:

Beneficial shareholders	
Government Employees Pension Fund	14.78
Lewis Stores Proprietary Limited	9.40
Trimark Global Endeavour Fund	4.24
Old Mutual Life Assurance Company Limited	3.09
By fund manager	
Public Investment Corporation	13.62
Old Mutual Asset Managers	8.04
FIL Limited / FMR LLC	6.61
Invesco Trimark	6.30
Sanlam Investment Managers	6.09

Geographical analysis of shareholders

Beneficial shareholders	
South Africa	58.34
North America	26.02
Europe	10.52
United Kingdom	4.39
Rest of World	0.73
	100.00
By fund manager:	
South Africa	58.39
North America	26.07
Europe	4.85
United Kingdom	4.58
Rest of World	6.11
	100.00

Domestic medium term note program

Under this program, the following notes have been issued:

- 3 year floating note maturing on 31 October 2016
- 6 month floating note maturing on 30 April 2014

In accordance with section 56(7) of the Companies Act, disclosure of beneficial holdings in excess of 5% of each class of note issued is set out below:

3 Year floating rate note:	
Nedcor Capital Treasury	50,00
Sanlam Life Insurance Limited	23,66
PT Conservative Managed Fund	13,33

6 month floating rate note:	
National Fund for Municipal Workers	11,50
PT International Balanced Fund of Funds	10,00
Old Mutual Symmetry Money Market Fund	10,00
Sanlam Money Market Fund	10,00
PT Conservative Managed Fund	9,50
Allan Gray Stable Fund	6,00
Glacier Money Market Fund	5,00

Shareholders' calendar

Financial year-end	31 March 2014
Final profit announcement	28 May 2014
Final dividend declared	28 May 2014
Annual report	27 June 2014
Last day to trade "cum" dividend	11 July 2014
Date trading commences "ex" dividend	14 July 2014
Record date	18 July 2014
Date of dividend payment	21 July 2014
Record date for voting at the annual general meeting	1 August 2014
Annual general meeting	15 August 2014
Interim profit announcement	10 November 2014

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)
JSE Share Codes:
LEW ISIN: ZAE000058236
LEW01 ISIN: ZAG000110222
("Lewis Group" or "the Company")

Notice is hereby given that the tenth annual general meeting of shareholders ("AGM") of Lewis Group Limited for the year ended 31 March 2014 will be held at Lewis Group's head office, 53A Victoria Road, Woodstock, Cape Town at 08:30 on Friday, 15 August 2014. **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 1 August 2014.

The purpose of the annual general meeting is for the following business to be transacted, and for the following resolutions be proposed for adoption by shareholders:

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 67 to 78 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 2014 be accepted and adopted."

5. Ordinary resolution number 2

Election of directors

Explanatory Note

The election of each director who 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. The directors who are due to retire by rotation at this AGM are F Abrahams, H Saven and A J Smart.

Each of these directors offers himself/herself for re-election.

Brief CV's of the directors are on pages 20 to 21 of the integrated report.

Election of Prof F Abrahams as director

5.1 "Resolved that Fatima Abrahams be and is hereby elected as director of the Company."

Election of Mr H Saven as director

5.2 "Resolved that Hilton Saven be and is hereby elected as director of the Company."

Election of Mr A J Smart as director

5.3 "Resolved that Alan Smart 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 current 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 20 to 21 of the integrated report.

Election of Ms Z B M 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 B J 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 who is a director of the firm, a registered auditor and accredited with the JSE in accordance with the JSE Listings Requirements will undertake the audit. The Group's Audit Committee has recommended that the firm, PricewaterhouseCoopers Inc and the designated auditor, Mr Zuhdi Abrahams be reappointed 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. **Non-binding advisory vote**

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, 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 44 to 49 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."

9. **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 adoption of this special resolution will be that the directors will be entitled to be paid the fees listed below in respect of the period from 1 July 2014 until 30 June 2015, such fees to be paid in instalments at the end of each quarter. The proposed fees include an annual increase of approximately 4.0%.

"Resolved that the fees of the directors as reflected below be approved for the period from 1 July 2014 until 30 June 2015:

Chairman	R490 000
Director	R234 000

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

Chairman	R240 000
Member	R103 000

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

Chairman	R114 000
Member	R72 000

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

Chairman	R114 000
Member	R57 000

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

Chairman	R77 000
Member	R33 000

If a member of the Social, Ethics and Transformation Committee the following additional amount:

Chairman	R114 000
Member	R57 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.

10. 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 interrelated 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.

When the need arises the Company provides loans to and/or guarantees loans or other obligations of its subsidiaries. The Company requires the ability to continue providing financial assistance, when necessary, to its current and future subsidiaries and/or any other company or corporation that is or becomes related or interrelated, 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 interrelated 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 interrelated 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 interrelated 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 2 (two) years after such date."

11. 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/or subsidiaries of the Company a general authority in terms of the Companies Act and the JSE Listings Requirements to acquire no more than 5% 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 JSE Listings Requirements as presently constituted and which may be amended from time to time, and provided further that:

– acquisitions by the Company and its subsidiaries of shares in the capital of the Company in terms of this general authority to repurchase shares may not, in the aggregate, exceed 5% (five per cent) of the Company's issued ordinary share capital from the date of the grant of this general authority 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 resolution;
– 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;
– an announcement will be published as soon as the Company and/or its subsidiaries has/have acquired ordinary shares in terms of this authority constituting, on a cumulative basis, 3% (three per cent) of the number of ordinary shares in issue at the time that this authority is granted by shareholders, and for each 3% (three per cent) in aggregate of the initial number of shares repurchased thereafter, containing full details of such repurchases as required by paragraph 11.27 of the JSE Listings Requirements;
– 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 5 (five) 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;
– the repurchase shall only be effected if the board of directors has at the time of the repurchase passed a resolution authorising the repurchase in terms of sections 48 and 46 of the Companies Act and it reasonably appears that the Company and its subsidiaries have satisfied the solvency and liquidity test and that, since the test was performed, there have been no material changes to the financial position of the Company and its subsidiaries; and
– the Company only appoints one agent at any point in time to effect repurchases on its behalf."

Directors' statement

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

Pursuant to and in terms of the JSE Listings Requirements, the board of directors of the Company hereby confirms that, after considering the effect of a repurchase of the maximum number of ordinary shares in terms of the aforegoing general authority (being 5% (five per cent) of the Company's issued ordinary share capital), the directors are 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 this notice of the AGM;
- the assets of the Company and the group will be in excess of the liabilities of the Company and the group for a period of 12 (twelve) months after the date of this notice of the AGM (for this purpose the assets and liabilities are recognised and measured in accordance with the accounting policies used in the audited financial statements for the year ended 31 March 2014);
- the share capital and reserves 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
- 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.

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 20, 21 and 32

Major beneficial shareholders – page 77

Directors' interests in ordinary shares – page 49

Share capital of the Company – page 26 of the annual financial statements

Update on directors' interests in terms of section 7.B.20 of the JSE Listings Requirements

There were no changes in the directors' interests in ordinary shares from 31 March 2014 to the date of this notice of the AGM.

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.

12. **Ordinary resolution number 5**

    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."

13. **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 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 12h00 on 1 August 2014. 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 (PO 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 (PO 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

20 June 2014

PROXY FORM

Lewis Group Limited

(Incorporated in the Republic of South Africa)

(Registration Number: 2004/009817/06)

JSE Share Codes:

LEW ISIN: ZAE000058236

LEW01 ISIN: ZAG000110222

("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, 15 August 2014 at 08:30 am ("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 Prof F Abrahams as director			
Ordinary resolution 2.2 Election of Mr H Saven as director			
Ordinary resolution 2.3 Election of Mr A J Smart as director			
Ordinary resolution 3.1 Election of Ms Z B M 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 B J van der Ross as a member of the audit committee			
Ordinary resolution number 4 Approval of reappointment of auditors			
Non-binding advisory vote Approval of the Company's remuneration policy			
Special resolution number 1 Approval of directors' fees			
Special resolution number 2 General authorisation of financial assistance			
Special resolution number 3 General authority to repurchase shares			
Ordinary resolution number 5 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 ____________________ 2014

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.

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 (PO Box 61051, Marshalltown, 2017), or lodged with the company secretary to be received, for administrative reasons, by no later than 08:30 on Wednesday, 13 August 2014.
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 company 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
Share code	LEW
ISIN	ZAE 000058236
Bond Code	LEW01
Bond ISIN No	ZAG000110222
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

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www.lewisgroup.co.za