Lewis Group Ltd

Audited Results

for the year ended 31 March 2008

Revenue increased by 8.2%	Operating profit increased by 8.2%	Earnings per share up by 10.3%	Headline earnings per share up by 6.9%	Dividend per share up by 21.4%

TRADING REVIEW

The past year has seen difficult trading conditions testing the resilience of our business model both in terms of sales and debtor management. It is positive to note that our core business namely furniture (52% of the business) and appliances (26% of the business) reflected merchandise sales increases of 9% and 8.9% respectively. The sound and vision section of the business (22% of the business) is traditionally a discretionary spend during difficult times and was most affected, reflecting an 11% decrease. Furthermore, there has been no significant deterioration in the quality of the debtors book.

Revenue increased by 8.2% to R3 596.4 million, with merchandise sales increasing 4.5% to R1 889.7 million. Lewis grew its revenue by 7.8% and merchandise sales by 4.1%. Best Electric's revenue increased by 11.9% and merchandise sales by 7.4%. Lifestyle Living's revenue has grown by 9.1% with a sales growth of 5.0%.

REVENUE RECOGNITION

Insurance Revenue

The group defers insurance revenue over the period of the contract.

Monarch, the group's wholly-owned short-term insurance company, provides insurance products to customers purchasing merchandise on credit to cover the outstanding debt and other insurable risks.

Monarch reinsures 40% of its insurance book with an independent third-party reinsurer with the risk transferring to the reinsurer. Monarch retains a premium reserve of 40% of the ceded premiums which has had the effect of deferring reinsurance revenue. At 31 March 2008, this reserve totalled R102 million.

The group accounts for the insurance revenue in terms of its contractual relationship with the parties. Over a two-year contract, the application of this policy results in 55% of the gross insurance revenue being recognised in the first year.

The accounting policies relating to insurance and reinsurance revenue is consistent with prior reporting periods.

Initiation Fees

Initiation fees and directly related costs are recognised over the period of the contract on an effective yield basis.

OPERATING PROFIT

Operating profit increased by 8.2%. Operating margin at 25.9% has been maintained at the same level as last year under challenging conditions.

SHAREHOLDER RETURNS

Earnings per share and headline earnings per share rose by 10.3% and 6.9% respectively. The return on equity is 24.4% (2007: 24.8%) and the return on assets managed is 18.9% (2007: 19%).

DIVIDENDS

The dividend cover which was improved in November 2007, has been maintained. The total dividend for the year is 323 cents per share, an increase of 21.4% over the prior year.

DEBTOR COSTS

Debtor costs of 6.5% of net debtors (2007: 5.8%) illustrates the group's core strength of debtor management in challenging conditions. Independent centralised credit-granting and a decentralised store-based collection process has contributed to the quality of the debtors book. The doubtful debt provision percentage has shown an improvement to 13.5% as compared to 14.9% last year. The lower doubtful debt provision percentage (calculated on the same basis as last year) is due to the write-off of older fully provided for accounts.

The introduction of the National Credit Act enabled the business to extend credit terms for top-rated customers. The condition of the extended term accounts is similar to that of shorter term accounts. Extended terms provide additional revenue opportunities.

A detailed analysis of debtors based on payment performance is shown below.

SEGMENTAL REPORT

The group has enhanced its segmental reporting to provide shareholders with a greater understanding of retail, risk services (insurance) and financial services divisions. Details are shown below.

The board remains committed to the group's customer-centric business model which is based on the premise that the selling of furniture and the granting of credit is inter-dependent.

CASH FLOW

Operating cash flow during the period funded the following:

- Increased working capital requirements of R439.7 million
- Share repurchases of R162.4 million
- Dividends of R262.7 million

Borrowings increased by R243 million and current gearing is 23.3% compared to 15.6% last year. This is in line with the board's objectives in regard to the capital structure of the group.

PROSPECTS

Trading conditions are expected to remain tough while external factors such as oil prices and food inflation affects the group's target market. On the positive side, however, there are no signs of increased unemployment. In addition, infrastructural spend and job creation in certain sectors remains encouraging.

DIVIDEND DECLARATION

Notice is hereby given that a final dividend of 179 cents in respect of the year ended 31 March 2008 has been declared payable to holders of ordinary shares.

The following dates are applicable:

Last date of trade "cum" dividend	Friday, 18 July 2008
Date trading commences "ex" dividend	Monday, 21 July 2008
Record date	Friday, 25 July 2008
Date of payment	Monday, 28 July 2008

Share certificates may not be dematerialised or rematerialised between Monday, 21 July 2008 and Friday, 25 July 2008, both days inclusive.

For and on behalf of the board

David Nurek
Chairman

Alan Smart
Chief Executive Officer

Cape Town
19 May 2008

EXTERNAL AUDITOR'S OPINION

The external auditors, PricewaterhouseCoopers Inc, have audited the group's annual financial statements and the abridged financial statements contained herein for the 12 months ended 31 March 2008. A copy of their unqualified reports are available on request at the company's registered office.

INCOME STATEMENT

	Notes	12 months ended 31 March 2008 Rm Audited	% Change	12 months ended 31 March 2007 Rm Audited
Revenue		3 596.4	8.2%	3 323.5
Merchandise sales		1 889.7		1 808.8
Finance charges earned		794.9		776.7
Insurance premiums earned		564.2		464.7
Ancillary services		347.6		273.3
Cost of merchandise sales		(1 272.1)		(1 194.0)
Operating costs		(1 393.9)		(1 269.6)
Employment costs		(504.2)		(485.6)
Administration and IT		(167.0)		(162.3)
Debtor costs	2	(190.4)		(147.9)
Marketing		(107.1)		(106.9)
Occupancy costs		(135.1)		(116.7)
Transport and travel		(127.3)		(109.2)
Depreciation		(40.9)		(38.9)
Other operating costs		(121.9)		(102.1)
Operating profit		930.4	8.2%	859.9
Investment income		71.7		42.7
Profit before finance costs		1 002.1		902.6
Net finance costs	3	(56.8)		(12.4)
Profit before taxation		945.3		890.2
Taxation		(303.0)		(291.9)
Net profit attributable to ordinary shareholders		642.3	7.4%	598.3
Reconciliation of headline earnings				
Net profit attributable to ordinary shareholders		642.3		598.3
Adjusted for				
Surplus on disposal of property, plant and equipment		(4.5)		(3.8)
Surplus on disposal of available-for-sale assets		(22.1)		(1.6)
Taxation		2 .2		1.3
Headline earnings		617.9	4.0%	594.2
Number of ordinary shares (000)				
In issue		99 158		100 000
Weighted average		89 583		92 062
Fully diluted weighted average		89 803		92 458
Earnings per share (cents)		717.0	10.3%	649.9
Headline earnings per share (cents)		689.8	6.9%	645.4
Fully diluted earnings per share (cents)		715.2		647.1
Fully diluted headline earnings per share (cents)		688.1		642.7

ABRIDGED CASH FLOW STATEMENT

	Notes	12 months ended 31 March 2008 Rm Audited	12 months ended 31 March 2007 Rm Audited
Cash generated from operations	5	556.2	591.5
Dividends and interest received		61.0	58.7
Finance costs		(68.2)	(30.0)
Taxation paid		(290.4)	(403.2)
Cash retained from operating activities		258.6	217.0
Net cash outflow from investing activities		(97.3)	(66.6)
Net cash outflow from financing activities	6	(404.3)	(439.3)
Net decrease in cash and cash equivalents		(243.0)	(288.9)
Cash and cash equivalents at the beginning of the year		(393.6)	(104.7)
Cash and cash equivalents at the end of the year		(636.6)	(393.6)

KEY RATIOS

	12 months ended 31 March 2008	12 months ended 31 March 2007
Operating efficiency ratios		
Merchandise gross profit %	32.7%	34.0%
Operating margin %	25.9%	25.9%
Number of stores	525	508
Number of employees (average)	6 696	6 310
Trading space (sqm)	220 236	215 076
Inventory turn	5.5	5.2
Current ratios	3.1	3.4
Credit ratios		
Cash and short-term credit sales % of total sales	33.1%	30.7%
Debtors costs as a % of the net debtors book	6.5%	5.8%
Doubtful debt provision as a % of net debtors book	13.5%	14.9%
Arrear instalments on slow-paying and non-performing accounts as a percentage of net debtors book	19.3%	19.0%
Doubtful debt provision coverage on non-performing accounts (note 3)	69.6%	81.2%
Credit applications decline rate	22.5%	20.1%
Shareholder ratios		
Net asset value per share (cents)	3 058	2 774
Gearing ratio	23.3%	15.6%
Dividend cover	2.0	2.25
Return on average equity	24.4%	24.8%
Return on average capital employed	21.4%	22.5%
Return on average assets managed (after-tax)	18.9%	19.0%

Notes:

1. *All ratios are based on figures at the end of the year unless otherwise disclosed.*
2. *The net asset value has been calculated using 89 286 000 shares in issue (2007: 91 092 000).*
3. *The lower doubtful debt provision percentage (calculated on the same basis as last year) is due to the write-off of older fully provided for accounts.*

BALANCE SHEET

	Note	31 March 2008 Rm Audited	31 March 2007 Rm Audited
ASSETS			
Non-current assets			
Property, plant and equipment		200.6	182.9
Investments – insurance business		505.4	461.1
Deferred taxation		–	102.9
		706.0	746.9
Current assets			
Investments – insurance business		159.5	199.3
Inventories		230.4	230.3
Trade and other receivables	4	2 615.6	2 187.7
Taxation		29.6	–
Cash on hand and deposits		66.8	35.7
		3 101.9	2 653.0
Total assets		3 807.9	3 399.9
EQUITY AND LIABILITIES			
Capital and reserves			
Shareholders' equity and reserves		2 730.0	2 527.2
Non-current liabilities			
Deferred taxation		14.4	25.4
Retirement benefits		57.7	67.6
		72.1	93.0
Current liabilities			
Trade and other payables		302.4	287.7
Taxation		–	61.7
Overdrafts and short-term interest-bearing borrowings		703.4	430.3
		1 005.8	779.7
Total equity and liabilities		3 807.9	3 399.9

STATEMENT OF CHANGES IN EQUITY

	12 months ended 31 March 2008 Rm Audited	12 months ended 31 March 2007 Rm Audited
Share capital and premium	149.1	311.4
Opening balance	311.4	524.9
Cost of own shares acquired	(162.4)	(213.5)
Share awards to employees	0.1	–
Other reserves	128.4	156.5
Opening balance	156.5	92.0
Fair value adjustments of available-for-sale investments, net of tax	(27.5)	54.0
Disposal of available-for-sale investments recognised	(21.3)	(1.4)
Share-based payment	6.7	4.0
Transfer of share-based payment reserve to retained earnings on vesting	(0.9)	(1.7)
Transfer to contingency reserve from retained earnings	9.0	4.2
Foreign currency translation reserve	5.9	5.4
Retained earnings	2 452.5	2 059.3
Opening balance	2 059.3	1 688.5
Net profit attributable to shareholders	642.3	598.3
Profit on sale of own shares	21.8	6.8
Transfer of share-based payment reserve from other reserves on vesting	0.9	1.7
Cost of share awards to employees	(0.1)	–
Transfer to contingency reserve	(9.0)	(4.2)
Distribution to shareholders	(262.7)	(231.8)
Balance at end of year	2 730.0	2 527.2

SEGMENTAL REPORT

Primary Segments	Retail Rm Audited	Risk Services Rm Audited	Financial Services Rm Audited	Total Rm Audited
2008				
Revenue	2 141.0	564.3	891.1	3 596.4
Operating profit	307.3	175.4	447.7	930.4
Operating margin %	14.4%	31.1%	50.2%	25.9%
Total assets	421.7	688.1	2 698.1	3 807.9
Total current liabilities	114.7	139.9	751.2	1 005.8
2007				
Revenue	2 044.9	464.7	813.9	3 323.5
Operating profit	321.7	183.4	354.8	859.9
Operating margin %	15.7%	39.5%	43.6%	25.9%
Total assets	384.8	685.4	2 329.7	3 399.9
Total current liabilities	151.9	125.9	501.9	779.7

Geographical	South Africa Rm Audited	BLNS* Rm Audited	Total Rm Audited
2008			
Revenue	3 218.1	378.3	3 596.4
2007			
Revenue	2 982.9	340.6	3 323.5

* Botswana, Lesotho, Namibia and Swaziland

ACCOUNTS RECEIVABLE ANALYSIS

The company applies a payment rating assessment to each customer individually, which categorises customers into 13 payment categories. This assessment is integral to the calculation of doubtful debts. The 13 payment categories has been summarised into four main groupings of customers. In the year under review, there has been no significant deterioration in the payment ratings of our customers.

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

Debtors Payment Analysis		Number of Customers 2008	Number of Customers 2007	Doubtful Debt Provision % 2008	Doubtful Debt Provision % 2007
Satisfactory paid	No	534 286	542 142		
Customers fully up to date including those who have paid 70% or more of amounts due over the contract period	%	75.1%	76.4%	0%	0%
Slow payers	No	51 759	47 959		
Customers who have paid between 70% and 65% of amounts due over the contract period	%	7.3%	6.8%	17%	19%
Non-performing customers	No	47 130	44 463		
Customers who have paid between 65% and 55% of amounts due over the contract period	%	6.6%	6.3%	42%	50%
Non-performing customers	No	78 413	74 654		
Customers who have paid 55% or less of amounts due over the contract period	%	11.0%	10.5%	86%	100%
		711 588	709 218	13.5%	14.9%

The lower doubtful debt provision percentage (calculated on the same basis as last year) is due to the write-off of older accounts.

ABRIDGED NOTES TO THE FINANCIAL STATEMENTS

1. **Basis of accounting**
   These consolidated financial statements are prepared in accordance with International Financial Reporting Standards, specifically IAS 34 on interim financial reporting, and the accounting policies applied are consistent with the prior year.

	31 March 2008 Rm Audited	31 March 2007 Rm Audited
2. **Debtor costs**		
Bad debts, bad debt recoveries and repossession losses	172.1	138.4
Movement in doubtful debts provision	18.3	9.5
	190.4	147.9
3. **Net finance costs**		
Interest paid:	68.2	29.6
– Bank and loans	68.1	26.9
– Other	0.1	2.7
Interest earned:	(6.5)	(4.0)
– Bank	(5.7)	(2.7)
– Other	(0.8)	(1.3)
Forward exchange contracts	(4.9)	(13.2)
	56.8	12.4
4. **Trade and other receivables**		
Instalment sale and loan receivables	3 539.8	3 317.0
Provision for unearned finance charges	(72.1)	(389.3)
Provision for unearned initiation fees	(46.9)	–
Provision for unearned maintenance income	(191.6)	(183.4)
Provision for unearned insurance premiums	(290.5)	(214.3)
Net instalment sale and loan receivables	2 938.7	2 530.0
Provision for doubtful debts	(395.8)	(377.5)
	2 542.9	2 152.5
Other receivables	72.7	35.2
	2 615.6	2 187.7

The credit terms of instalment sale and loan receivables range from 6 to 36 months (2007: 6 to 24 months). Amounts due from instalment sale and loan receivables after one year are reflected as current, as they form part of the normal operating cycle.

	31 March 2008 Rm Audited	31 March 2007 Rm Audited
5. **Cash generated from operations**		
Operating profit	930.4	859.9
Adjusted for:		
Share-based payment	6.7	4.0
Depreciation	40.9	38.9
Surplus on disposal of property, plant and equipment	(4.5)	(3.8)
Movement in provision for doubtful debts	18.3	9.5
Movement in retirement benefits provision	(9.9)	(8.2)
Movement in other provisions	14.0	11.1
Changes in working capital:		
Increase in inventories	(1.9)	(20.1)
Increase in trade and other receivables	(440.3)	(295.3)
Increase/(Decrease) in trade and other payables	2.5	(4.5)
	556.2	591.5
6. **Net cash outflow from financing activities**		
Purchase of own shares	(162.4)	(213.5)
Dividends paid	(262.7)	(231.8)
Proceeds on sale of own shares	21.8	6.8
Repayment of finance lease liability	(1.0)	(0.8)
	(404.3)	(439.3)

Executive directors: AJ Smart (*Chief Executive Officer*), LA Davies (*Chief Financial Officer*)
Independent non-executive directors: DM Nurek (*Chairman*), H Saven, BJ van der Ross, Professor F Abrahams
Company secretary: MG McConnell • **Registered office:** 53A Victoria Road, Woodstock, 7925
Registration number: 2004/009817/06 • **Share code:** LEW • **ISIN:** ZAE000058236
Transfer secretaries: Computershare Investor Services (Pty) Ltd,
70 Marshall Street, Johannesburg, 2001; PO Box 61051, Marshalltown, 2107
Auditors: PricewaterhouseCoopers Inc. • **Sponsor:** UBS South Africa (Pty) Ltd

Lewis · Best Electric · Lifestyle Living · Monarch Insurance Company Ltd.