Lewis Group Ltd

Final Audited Condensed Results for the year ended 31 March 2010

REVENUE INCREASED BY	OPERATING PROFIT MARGIN	OPERATING PROFIT UP	EARNINGS PER SHARE UP	TOTAL DIVIDEND PER SHARE MAINTAINED AT
8.0%	22.1%	9.0%	5.6%	323 cents

INTRODUCTION

Lewis Group recorded solid growth in revenue and profitability for the year as the early signs of improving economic conditions started to benefit consumers. This is reflected in the recovering credit collections environment in the second half of the year and stabilising debtor costs.

TRADING AND FINANCIAL PERFORMANCE

Revenue increased by 8.0% to R4 111 million and merchandise sales by 6.5% to R2 046 million. The merchandise strategy of sourcing exclusive and differentiated furniture ranges has continued to benefit the group. Sales of the higher margin furniture and appliance category increased by 8.5%. Furniture now accounts for 55% (2009: 53%) of group sales.

Merchandise sales in Lewis, which comprise 83% of total sales, increased by 7.7%. Best Home and Electric grew sales by 7.8% and sales in Lifestyle Living declined by 10.4%. Credit sales supported by merchandise initiatives and local promotions increased to 68.5% from 64.3% of total sales.

Revenue from finance charges rose 9.7% and insurance revenue increased by 6% owing to the earn-out of longer term contracts. Ancillary services, which comprise the monthly service and initiation fees charged in terms of the National Credit Act, increased by 13.1% in line with the growth in credit sales.

Operating costs, excluding debtor costs, increased by 9.2%. The main contributors to this increase were union negotiated wage settlements, increases in variable remuneration on improved trading, IT system upgrades and Monarch insurance claims.

Gross profit margin improved from 31.3% to 34.9% fully recovering currency losses reported at the half-year. After adjusting for currency losses, which are shown separately, the net position improved from 31.9% to 33.4%.

Inventory turn improved from 5.8 to 6.0 times. Efficient stock management and successful product ranging contributed to this favourable result.

The group operating margin improved to 22.1% (2009: 21.9%), translating into a 9.0% uplift in operating profit to R907 million, once again reflecting the resilience of the business model. Earnings per share increased by 5.6% to 672.0 cents per share.

DEBTOR MANAGEMENT

The collection environment was difficult in the first six months. However, since half-year, collections have improved and debtor costs stabilised. Debtor costs for the year increased by 28% reflecting an improvement on the half-year position which was 32% higher.

Since half-year certain non-performing accounts, against which approximately 95% of the balance had been provided by way of an impairment provision, were written off. The release of the impairment provision in respect of these accounts compensated for the write-off and the effect on operating profit was minimal.

Debtor costs for the year are 10.9% of net debtors. This compares to 10% for last year.

The credit application decline rate at 27.5% is in line with first half experience, although up on last year's 25.4%. The group's centralised credit-granting process has been a core strength in a difficult credit environment.

The year-end impairment provision moved from 15.7% to 16.0%, improving on the level of 17.9% reflected at half-year. An analysis of the debtors book, which is detailed in the accompanying table, reflects the improving trend in payment performance. Satisfactory paying customers now comprise 72.7% of net debtors compared to 72.0% last year.

CASH AND CAPITAL MANAGEMENT

The total dividend has been maintained at 323 cents per share for the year, comprising an interim dividend of 144 cents and final dividend of 179 cents.

Gearing rose to 27.5% as a result of the additional investment in debtors and the insurance business arising from extended term business. The gearing ratio remains well below management's maximum level of 35% and is expected to decline in the year ahead.

STORE EXPANSION

The store base increased to 548 following the opening of ten Lewis and six Best Home and Electric branches during the year. The smaller format Lewis outlets continue to show pleasing results based on sales, productivity and profitability. Lewis now has nine small format stores.

A new trading brand, My Home, will be launched in June 2010 and is targeted at aspirational customers in the LSM 7 – 8 categories. My Home will adopt the successful Lewis business model utilising the group's well-established credit infrastructure. The focus will be on differentiating the merchandise offering through exclusive and innovative ranging to attract customers who would use in-store credit facilities. Thirteen Lifestyle Living stores will be converted to My Home and a conservative expansion plan followed based on the performance of the new chain.

PROSPECTS

While trading conditions are showing early signs of improvement, the environment is expected to remain challenging in the year ahead as the country emerges from recession. Job creation remains key to stimulating economic growth among the Lewis target market.

Debtor costs appear to have peaked and should moderate in the year ahead as the credit collections environment continues to improve.

A more aggressive store expansion programme will see the group open 40 to 45 new stores in the year ahead.

DIVIDEND DECLARATION

Notice is hereby given that a final cash dividend of 179 cents in respect of the year ended 31 March 2010 has been declared payable to holders of ordinary shares.

The following dates are applicable:

Last date to trade "cum" dividend	Friday, 16 July 2010
Date trading commences "ex" dividend	Monday, 19 July 2010
Record date	Friday, 23 July 2010
Date of payment	Monday, 26 July 2010

Share certificates may not be dematerialised or rematerialised between Monday, 19 July 2010 and Friday, 23 July 2010, both days inclusive.

For and on behalf of the board.

David Nurek
Chairman

Johan Enslin
Chief Executive Officer

Cape Town
19 May 2010

EXTERNAL AUDITORS' 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 2010. A copy of their unqualified reports are available on request at the company's registered office.

Lewis | Best Home and Electric | Lifestyle Living | Monarch Insurance Company Ltd

Executive directors: J Enslin (Chief Executive Officer), L A Davies (Chief Financial Officer)
Non-executive directors: D M Nurek (Chairman) (Ind.), H Saven (Ind.), B J van der Ross (Ind.), Professor F Abrahams (Ind.), Z B M Bassa (Ind.), M S P Marutlulle (Ind.), A J Smart

Company secretary: M G 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

ince.motiv

INCOME STATEMENT

	Notes	12 months ended 31 March 2010 Rm Audited	% change	12 months ended 31 March 2009 Rm Audited Restated
Revenue		**4 110.6**	8.0%	3 807.1
Merchandise sales		**2 045.5**		1 919.9
Finance charges earned		**907.1**		826.6
Insurance premiums earned		**616.0**		581.4
Ancillary services		**542.0**		479.2
Cost of merchandise sales		**(1 330.6)**		(1 318.3)
Operating costs		**(1 872.8)**		(1 656.5)
Employment costs		**(607.4)**		(542.0)
Administration and IT		**(194.7)**		(176.0)
Debtor costs	2	**(434.2)**		(338.8)
Marketing		**(134.3)**		(124.0)
Occupancy costs		**(165.1)**		(150.5)
Transport and travel		**(135.9)**		(138.8)
Depreciation		**(46.3)**		(47.3)
Other operating costs		**(154.9)**		(139.1)
Operating profit		**907.2**	9.0%	832.3
Investment income		**77.5**		76.9
Profit before finance costs		**984.7**		909.2
Net finance costs	3	**(121.2)**		(86.5)
Profit before taxation		**863.5**		822.7
Taxation		**(272.1)**		(261.5)
Net profit attributable to ordinary shareholders		**591.4**	5.4%	561.2
Reconciliation of headline earnings				
Net profit attributable to ordinary shareholders		**591.4**		561.2
Adjusted for				
Surplus on disposal of property, plant and equipment		**(6.5)**		(3.6)
Surplus on disposal of available-for-sale investments		**(23.6)**		(2.6)
Tax effect		**4.2**		1.2
Headline earnings		**565.5**	1.7%	556.2
Number of ordinary shares (000)				
In issue		**98 058**		98 058
Weighted average		**88 002**		88 209
Diluted weighted average		**88 330**		88 633
Earnings per share (cents)		**672.0**	5.6%	636.2
Headline earnings per share (cents)		**642.6**	1.9%	630.5
Diluted earnings per share (cents)		**669.5**		633.2
Diluted headline earnings per share (cents)		**640.2**		627.5

STATEMENT OF COMPREHENSIVE INCOME

	12 months ended 31 March 2010 Rm Audited	12 months ended 31 March 2009 Rm Audited Restated
Net profit for the year	**591.4**	561.2
Fair value adjustments of available-for-sale investments	**87.1**	(40.0)
Fair value adjustments of available-for-sale investments	**99.4**	(47.6)
Tax effect	**(12.3)**	7.6
Disposal of available-for-sale investments recognised	**(21.3)**	2.4
Disposal of available-for-sale investments	**(23.6)**	2.6
Tax effect	**2.3**	(0.2)
Foreign currency translation reserve	**(7.4)**	4.4
Total comprehensive income for the year	**649.8**	528.0

KEY RATIOS

	12 months ended 31 March 2010	12 months ended 31 March 2009
Operating efficiency ratios		
Gross profit margin %	**34.9%**	31.3%
Operating profit margin %	**22.1%**	21.9%
Number of stores	**548**	535
Number of permanent employees (average)	**6 668**	6 480
Trading space (sqm)	**225 891**	223 102
Inventory turn	**6.0**	5.8
Current ratio	**3.5**	3.2
Credit ratios		
Cash and short-term credit sales % of total sales	**31.5%**	35.7%
Bad debts as a % of net debtors	**8.3%**	6.0%
Debtor costs as a % of net debtors	**10.9%**	10.0%
Debtors' impairment provision as a % of net debtors	**16.0%**	15.7%
Arrear instalments on satisfactory accounts as a percentage of net debtors	**9.3%**	9.5%
Arrear instalments on slow-paying and non-performing accounts as a percentage of net debtors	**19.8%**	20.9%
Debtors' impairment provision on non-performing accounts	**74.9%**	71.3%
Credit applications decline rate	**27.5%**	25.4%
Shareholder ratios		
Net asset value per share (cents)	**3 719**	3 303
Gearing ratio	**27.5%**	23.5%
Dividend cover	**1.9**	1.8
Return on average equity (after-tax)	**19.2%**	20.1%
Return on average capital employed (after-tax)	**17.2%**	17.7%
Return on average assets managed (pre-tax)	**21.9%**	23.0%

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 88 030 000 shares in issue (2009: 87 820 000).
3. The ratios for the prior year have been restated for the change in accounting policy.
4. The total assets excludes the deferred tax asset.

BALANCE SHEET

	Notes	31 March 2010 Rm Audited	31 March 2009 Rm Audited Restated
Assets			
Non-current assets			
Property, plant and equipment		**251.1**	225.1
Deferred tax		**13.0**	–
Investments – insurance business		**716.0**	535.1
		980.1	760.2
Current assets			
Inventories		**210.0**	228.0
Trade and other receivables	4	**3 427.6**	2 893.4
Investments – insurance business		**178.1**	199.1
Cash on hand and deposits		**62.2**	54.8
		3 877.9	3 375.3
Total assets		**4 858.0**	4 135.5
Equity and liabilities			
Capital and reserves			
Shareholders' equity and reserves		**3 273.7**	2 900.3
Non-current liabilities			
Long-term interest-bearing borrowings		**350.0**	100.0
Deferred taxation		**84.5**	37.7
Retirement benefits		**51.8**	53.9
		486.3	191.6
Current liabilities			
Trade and other payables	5	**450.0**	404.1
Taxation		**36.6**	2.5
Short-term interest-bearing borrowings		**611.4**	637.0
		1 098.0	1 043.6
Total equity and liabilities		**4 858.0**	4 135.5

CASH FLOW STATEMENT

	Notes	12 months ended 31 March 2010 Rm Audited	12 months ended 31 March 2009 Rm Audited
Cash generated from operations	6	**478.1**	669.7
Dividends and interest received		**59.9**	96.3
Finance costs		**(127.2)**	(108.5)
Taxation paid		**(214.2)**	(185.6)
Cash retained from operating activities		**196.6**	471.9
Net cash outflow from investing activities		**(126.3)**	(183.0)
Net cash outflow from financing activities	7	**(37.3)**	(234.5)
Net increase in cash and cash equivalents		**33.0**	54.4
Cash and cash equivalents at the beginning of the year		**(582.2)**	(636.6)
Cash and cash equivalents at the end of the year		**(549.2)**	(582.2)

STATEMENT OF CHANGES IN EQUITY

	12 months ended 31 March 2010 Rm Audited	12 months ended 31 March 2009 Rm Audited Restated
Share capital and premium	**93.5**	97.8
Opening balance	**97.8**	149.1
Cost of own shares acquired	**(4.3)**	(51.3)
Other reserves	**171.3**	107.4
Opening balance	**107.4**	128.4
Other comprehensive income:		
Fair value adjustments of available-for-sale investments	**87.1**	(40.0)
Disposal of available-for-sale investments recognised	**(21.3)**	2.4
Foreign currency translation reserve	**(7.4)**	4.4
Share-based payment	**10.9**	10.6
Transfer of share-based payment reserve to retained income on vesting	**(11.5)**	(0.2)
Transfer to contingency reserve	**6.1**	1.8
Retained earnings	**3 008.9**	2 695.1
Opening balance	**2 695.1**	2 418.7
As previously reported		2 452.5
Prior year adjustment		(33.8)
Net profit attributable to ordinary shareholders	**591.4**	561.2
Profit on sale of own shares	**1.4**	1.1
Transfer of share-based payment reserve to retained income on vesting	**11.5**	0.2
Transfer to contingency reserve	**(6.1)**	(1.8)
Distribution to shareholders	**(284.4)**	(284.3)
Balance at end of year	**3 273.7**	2 900.3

SEGMENTAL REPORT

Reportable segments	Lewis Rm	Best Home and Electric Rm	Lifestyle Living Rm	Total Rm
2010				
Revenue	**3 470.3**	**503.4**	**136.9**	**4 110.6**
Operating profit	**808.7**	**96.2**	**2.3**	**907.2**
Operating profit margin	**23.3%**	**19.1%**	**1.7%**	**22.1%**
Segment assets	**3 072.8**	**410.4**	**62.4**	**3 545.6**
2009				
Revenue	3 204.5	454.3	148.3	3 807.1
Operating profit	737.0	91.2	4.1	832.3
Operating profit margin	23.0%	20.1%	2.8%	21.9%
Segment assets	2 671.9	341.5	69.7	3 083.1

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 the debtors' impairment provision. 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:

		Number of customers		Impairment provision %	
Debtors Payment Analysis		**2010**	2009	**2010**	2009
Satisfactory paid					
Customers fully paid up to date including those who have paid 70% or more of amounts due over the contract period.	No. %	**498 370** **72.7%**	497 296 72.0%	**0%**	0%
Slow payers					
Customers who have paid between 65% and 70% of amounts due over the contract period.	No. %	**58 476** **8.5%**	57 042 8.2%	**23%**	20%
Non-performing customers					
Customers who have paid between 55% and 65% of amounts due over the contract period.	No. %	**48 446** **7.1%**	50 300 7.3%	**43%**	42%
Non-performing customers					
Customers who have paid 55% or less of amounts due over the contract period.	No. %	**80 417** **11.7%**	86 448 12.5%	**94%**	88%
		685 709	691 086	**16.0%**	15.7%

The debtors' impairment provision is allocated to the summary categories based on the number of customers.

NOTES TO THE FINANCIAL STATEMENTS

1 **Basis of accounting**

The results for the 12 months to 31 March 2010 are prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards, including IAS 34 (Interim Financial Reporting), and in accordance with the Listings Requirements of the JSE Limited. The accounting policies are consistent with those applied in the annual financial statements for the prior year except for:

1.1 **Change in accounting for deferred costs on initiation fees**

The group previously deferred costs on the basis that the costs were directly related to the initiation fee earned. An amendment to IAS 18 (Revenue Recognition) replaced the term "direct costs" with "transaction costs" as defined in paragraph 9 of IAS 39. This later definition requires costs to be incremental ie costs that would not have been incurred, had the financial asset not been acquired.

In accordance with the amendment to IAS 18, the group's accounting policy for deferred costs on initiation fees has been changed. In terms of IAS 8 (Accounting Policies), the relevant comparative information has been restated and the effect on the financial statements is as follows:

	31 March 2010 Rm Audited	31 March 2009 Rm Audited Restated
Decrease in profit before taxation	**8.8**	8.0
Decrease in taxation	**(2.5)**	(2.2)
Effect on net profit after taxation	**6.3**	5.8
Decrease in earnings per share (cents)	**7.2**	6.6
Decrease in diluted earnings per share (cents)	**7.1**	6.5
Decrease in opening retained earnings	**39.6**	33.8
Decrease in property, plant and equipment	**6.1**	4.6
Decrease in trade and other receivables	**57.6**	50.3
Decrease in deferred taxation	**17.8**	15.3

1.2 **Adoption of Revised IAS 1 (Presentation of Financial Statements)**

The presentation of the financial statements has been amended in line with the revised IAS 1 to include a Statement of Comprehensive Income. In addition to net profit, the Statement of Comprehensive Income includes fair value adjustments on insurance investments and movements in foreign currency translation reserve. These were previously reflected in the Statement of Changes in Equity.

1.3 **Adoption of IFRS 8 (Operating Segments)**

In terms of IFRS 8 which replaced IAS 14 (Segment Reporting), operating segments are components of the group about which separate financial information is available and evaluated regularly by the chief operating decision makers (identified as the Chief Executive Officer and the Chief Financial Officer) for the purpose of allocating resources and evaluating performance. Accordingly, the group now discloses segmental information for the three brands, namely Lewis, Best Home and Electric and Lifestyle Living. Previously, the segmental information was presented on the basis of retail, finance and risk segments.

In addition, an amendment to IFRS 8 has been adopted which permits disclosure of the assets regularly reported to the chief operating decision makers.

Accordingly, segment assets reflect net trade receivables and inventory for each of the brands.

2	**Debtor costs**		
	Bad debts, repossession losses and bad debt recoveries	**331.5**	201.9
	Movement in impairment provision (doubtful debts)	**102.7**	136.9
		434.2	338.8
3	**Net finance costs**		
	Interest paid	**94.7**	108.5
	Interest earned	**(6.0)**	(11.5)
	Losses/(Gains) on forward exchange contracts	**32.5**	(10.5)
		121.2	86.5
4	**Trade and other receivables**		
	Instalment sale and loan receivables	**4 705.2**	4 007.2
	Provision for unearned finance charges and unearned maintenance income	**(207.5)**	(181.1)
	Provision for unearned initiation fees	**(88.5)**	(78.3)
	Provision for unearned insurance premiums	**(438.2)**	(360.0)
	Net instalment sale and loan receivables	**3 971.0**	3 387.8
	Provision for impairment (doubtful debts)	**(635.4)**	(532.7)
		3 335.6	2 855.1
	Other receivables	**92.0**	38.3
		3 427.6	2 893.4

The credit terms of instalment sale and loan receivables range from 6 to 36 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.

5	**Trade and other payables**		
	Trade payables	**64.1**	84.8
	Accruals and other payables	**134.4**	142.9
	Due to reinsurers	**121.1**	105.3
	Insurance provisions	**130.4**	71.1
		450.0	404.1
6	**Cash generated from operations**		
	Operating profit	**907.2**	832.3
	Adjusted for:		
	Share-based payment	**10.9**	10.6
	Depreciation	**46.3**	47.3
	Surplus on disposal of property, plant and equipment	**(6.5)**	(3.6)
	Movement in debtors' impairment provision	**102.7**	136.9
	Movement in retirement benefits provision	**(2.1)**	(3.8)
	Movement in other provisions	**71.5**	30.4
		1 130.0	1 050.1
	Changes in working capital:	**(651.9)**	(380.4)
	Decrease in inventories	**17.0**	4.1
	Increase in trade and other receivables	**(644.3)**	(454.1)
	(Decrease)/Increase in trade and other payables	**(24.6)**	69.6
		478.1	669.7
7	**Net cash outflow from financing activities**		
	Purchase of own shares	**(4.3)**	(51.3)
	Distribution to shareholders	**(284.4)**	(284.3)
	Proceeds on sale of own shares	**1.4**	1.1
	Increase in long-term interest-bearing borrowings	**250.0**	100.0
		(37.3)	(234.5)

These results are also available on our website: www.lewisgroup.co.za