

# governance

## corporate governance

The directors endorse the principles of effective corporate governance and accept responsibility for ensuring that it is consistently practised throughout the group. In discharging this responsibility, the Board has ensured that the company complies in all material respects with the requirements of the Code of Corporate Practices and Conduct as set out in the second King Report on Corporate Governance (King II).

### Board

The Board comprises four independent non-executive directors and one executive director.

The Board is chaired by David Nurek, an independent non-executive director. The Chairman is responsible for providing leadership to the Board, overseeing its efficient operation and ensuring effective corporate governance.

In terms of its charter, the Board's responsibilities include the following:

- adoption of strategic plans;
- monitoring operational performance and management;
- ensuring effective risk management and internal control;

- overseeing director selection, orientation and evaluation;
- approving significant accounting policies;
- ensuring effective regulatory compliance;
- assessing the sustainability of the group as a going concern;
- approving the annual and interim financial statements; and
- ensuring balanced and understandable communication to stakeholders.

The Board has defined levels of materiality recorded in a written delegation of authority, setting out decisions it wishes to reserve for itself.

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

Directors are selected to serve on the Board, based on their knowledge, experience, credibility, the contribution they can make and attention they can devote to the role.

A self-evaluation of the Board's performance is undertaken annually. The first such evaluation was conducted in November 2005 and the results communicated to the Board.

### Board meetings

The Board meets four times a year. The charter allows for additional meetings when it is considered necessary.

Meetings are conducted in accordance with formal agendas, ensuring that all substantive matters are properly addressed and monitored. Any director may request additional items be included on the agenda. Meaningful, relevant and complete information is disseminated prior to Board meetings to facilitate in-depth discussion.

Non-executive directors bring an independent view and enjoy significant influence at the meetings. In addition, there is ongoing communication between the executive and non-executive directors outside of the formal meetings. The independent non-executive directors meet privately on a regular basis.

The directors have unrestricted access to information and management and may seek independent professional advice at the group's expense, after consultation with the Chairman.

A summary of the attendance at Board and committee meetings is set out on page 49.

### **Board Committees**

The Board of directors has delegated specific responsibilities to Board Committees, each with their own charter and terms of reference. The Board Committees meet independently and report back through their Chairman. Minutes of committee meetings are distributed to the Board. All members of committees are non-executive directors.

### **Audit and Risk Committee**

The Audit and Risk Committee is chaired by Hilton Saven. The committee consists of three independent non-executive directors, namely: Hilton Saven, David Nurek and Ben van der Ross, who replaced David Tyler on 29 August 2005. The directors are financially literate and suitably qualified to perform their roll.

The committee meets four times a year and is responsible for:

- approving the internal audit plan and reviewing the activities and findings of the department. Evaluating the performance of the internal audit function;
- reviewing the audit plan of the external auditors, providing guidance as to the extent of services other than audit to be provided. Assessing the independence and objectivity of the external auditors. Considering significant differences of opinion between management and external auditors;
- reviewing the adequacy of internal control and risk management;
- ensuring compliance with regulatory requirements;

- assessing the sustainability of the group in terms of economic, environmental and social considerations; and
- reviewing the financial reporting systems, evaluating and approving accounting policies and the financial information issued to the stakeholders in terms of International Financial Reporting Standards.

### **Remuneration and Nomination Committee**

The Remuneration and Nomination Committee is chaired by David Nurek, an independent non-executive director who is also the Chairman of the Board. The committee consists of four independent non-executive directors: David Nurek, Hilton Saven, Ben van der Ross and Professor Fatima Abrahams, who joined the committee effective 1 September 2005.

The Committee meets twice a year and is responsible for the following:

- developing a remuneration philosophy;
- ensuring senior executives are fairly rewarded;
- succession planning;
- ensuring the Board has the required mix of skills, experience and other qualities to effectively manage the group; and
- identifying and nominating candidates to fill Board vacancies.

Before nominating individuals, appropriate reference checks are performed. Newly-appointed directors are taken through an induction programme, outlining their fiduciary responsibilities and the necessary company and industry-specific background information.

It is group philosophy to remunerate management on a basis adequate to attract and retain executives of calibre. A significant portion of the executives' remuneration package is performance based.

### **Transformation Committee**

A Transformation Committee has been formed, chaired by Professor Fatima Abrahams and includes David Nurek. The purpose of this committee is to progress broad-based empowerment within the group. The first meeting of this committee will be in the 2006/2007 financial year. It is envisaged that the committee will meet twice a year.

### **Executive Committee**

The Chief Executive Officer, Alan Smart is responsible for formulating, implementing and maintaining strategic direction, as well as ensuring that the day-to-day activities are appropriately supervised and controlled.

The responsibility for the implementation of strategy and management control over the activities of the group rests with the executive management committee. The committee is chaired by the Chief Executive Officer and consists of 14 senior members of the executive team which includes the seven directors of Lewis Stores (Pty) Ltd.

The executive committee meets regularly and is responsible for assisting the Chief Executive Officer in the management of the group, is accountable

for the performance of the group and makes policy proposals to the Board for consideration and adoption.

### **Company Secretary**

The Company Secretary acts as adviser to the Board and plays a pivotal role in ensuring compliance with statutory regulations and the Code, the induction of new directors, tabling information on relevant regulatory and legislative changes, and giving guidance to the directors regarding their duties and responsibilities. The directors have unlimited access to the advice and services of the Company Secretary.

The appointment and removal of the Company Secretary is a matter for the Board.

### **Internal control and risk management**

The group's internal controls and systems are designed to provide reasonable, but not absolute assurance as to the integrity and reliability of the annual financial statements, to safeguard and maintain accountability of its assets, to minimise fraud, loss and material misstatements and to ensure compliance in all material respects with applicable laws and regulations.

The systems of internal control are based on established organisational structures, written policies and procedures and includes the preparation of budgets and forecasts and the subsequent comparison of actual results to these budgets and forecasts. These systems and procedures are implemented, maintained and monitored by appropriately trained personnel with suitable segregation of authority, duties and reporting lines and by the comprehensive use of computer technology.

The effectiveness of the systems of internal control is monitored by the senior executives, general managers and the internal auditors. These reviews indicate that the systems of internal control are appropriate and satisfactory and in addition,

no material loss, or misstatement arising from a material breakdown in the functioning of the systems has occurred. The Board is of the view that current controls are adequate and effective to mitigate, to an acceptable level, the significant risks faced by the group.

### **Internal audit**

The internal audit department reports to the Audit and Risk Committee and has direct access to the chairman of the Audit and Risk Committee. For day-to-day matters it reports to the Chief Financial Officer.

It provides assurance that management and business processes are adequate to identify and monitor significant foreseeable risks. It monitors the effective operation of the established internal control systems and is responsible for establishing credible processes for feedback on risk management to the Board.

The internal audit department's charter has been approved by the Audit and Risk Committee and is consistent with the Institute of Internal Auditors' requirements for internal auditing. The audit coverage plan is reviewed annually and all significant findings and recommendations are reported to executive management and the Audit and Risk Committee.

The internal audit department co-ordinates with the external auditors, as far as practicably possible, to ensure proper coverage of financial, operational and compliance controls and to minimise duplication of effort.

### **External auditors**

The external auditors provide an independent assessment of the annual financial statements and express an opinion on the fair presentation of the financial disclosures.

The external auditors have free and unrestricted access to the Audit and Risk Committee.

The annual audit plan prepared by the external auditors is reviewed by the Audit and Risk Committee to ensure that all significant areas are covered, without infringing on the external auditors' independence and right to audit.

The external auditors report their audit findings to the Audit and Risk Committee and executive management. The committee ensures that the matters identified and significant differences of opinion between management and the external auditors are considered.

Non-audit services provided by the external auditors are reported to the Audit and Risk Committee on a biannual basis.

### **Behavioural code**

The group is committed to a culture of the highest levels of professionalism and integrity in its business dealings with stakeholders. The behavioural codes sets out standards of honesty, integrity and mutual respect. Employees are expected to act within this code at all times.

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

An anonymous hotline is available to all employees to report suspected incidents for investigation. Employees are guaranteed confidentiality and protection from victimisation for reporting such incidences.

### Conflict of interest

Directors or senior executives, once aware of any conflict of interest, are required to disclose such immediately and are precluded from voting at meetings on conflicting matters.

### Share dealing

An insider trader policy exists. During closed periods or when in the opinion of the Chairman, there is price-sensitive information available which has not yet been publicly disclosed, the directors, officers and defined employees may not deal in the shares of Lewis.

Directors are required to obtain written clearance from the Chairman of the Board before dealing. If the Chairman wishes to deal, he is required to obtain written permission from the Chairman of the Audit and Risk Committee.

A register of share dealings by directors is maintained by the Company Secretary and reviewed by the Board.

### Stakeholder communication

In all communications with stakeholders, the Board aims to present a balanced and understandable assessment of the group's position. This is done through adhering to principles of openness and substance over form and striving to address material matters of significant interest and concern to all stakeholders. Proactive communication is maintained with institutional investors and investment analysts. The Board encourages shareholder attendance at general meetings and provides understandable explanations of the effects of resolutions to be proposed.

	Board	Audit and Risk Committee	Remuneration and Nomination Committee
Number of meetings	4	4	2
<b>Directors</b>			
D M Nurek	4	4	2
A J Smart <sup>④</sup>	4	4	2
H Saven	4	4	2
D A Tyler <sup>①</sup>	1	1	–
B van der Ross <sup>②</sup>	3	2	2
F Abrahams <sup>③</sup>	2	nr	1

<sup>①</sup> David Tyler resigned on 5 August 2005. He attended all Board and committee meetings until date of resignation.  
<sup>②</sup> Ben van der Ross joined the Audit and Risk Committee on 29 August 2005, the date of the second Audit and Risk Committee meeting.  
<sup>③</sup> Professor Fatima Abrahams was appointed to the Board and the Remuneration and Nomination Committee on 1 September 2005.  
<sup>④</sup> In terms of the respective charters, Alan Smart, in his capacity as Chief Executive Officer, is entitled to attend the meetings of the Audit and Risk and the Remuneration and Nomination Committees.

nr = not required

## risk management

Risk management is a process of identifying, evaluating, and responding to business-specific, industry and general risks. Due to their involvement in the business operations, executive management is able to identify risks and to assess whether the risk has to be transferred, avoided or managed. This process has been formalised by the Risk Working Group which reports on a biannual basis to the Audit and Risk Committee.

The primary risks to the group have remained unchanged from the previous year and there has been no shift in their significance. These can be broadly categorised as follows:

### Credit management

The extension of credit to our customers and subsequent collectibility of these debts is influenced by:

- **Social and economic trends**  
Relevant factors include rising personal debt levels, unemployment levels and rising rates.

The group has industry-leading credit-granting systems which assess the creditworthiness of customers and ensures manageable levels of bad debt. Any shift in the payment pattern of our customer base would be rapidly identified and the appropriate action taken.



- **The National Credit Act**

This consumer legislation governs the granting of credit and is scheduled for implementation on 1 June 2007.

The National Credit Act should have a limited impact on credit management processes as the group has always been a responsible lender of credit and ensures that its customers are not over-extended.

**Human capital**

**Labour related**

Our employees are unionised and as with all collective bargaining, there is a risk of disputes and work stoppages. In the past, Lewis and the unions have reached mutually acceptable settlement.

**Key executives**

These persons generally have substantial experience and expertise in the furniture retail business and have made significant contributions to the success and growth of the group.

The retention of key executives is the responsibility of the Board through its Remuneration and Nomination Committee.

**Procurement**

The group imports 13.7% of total purchases directly from foreign suppliers. The foreign exchange risk of imports is mitigated by using forward contracts.

**HIV/AIDS**

South Africa has one of the highest HIV/AIDS infection rates in the world. The impact of this pandemic on our customer base and staff is continually monitored.

**Information technology**

The business is dependent on its information technology platforms. Software development and services are outsourced to a third-party provider. The quality of the service is monitored through a service level agreement.

Disaster recovery planning is in place and tested regularly during the year. In addition, a comprehensive business recovery plan exists for the group.

**Investments**

Monarch Insurance Company (“Monarch”) is required to hold investments to support the technical reserves required by the Short-term Insurance Act. The fair value of these investments are affected by the economic and investment climate. The Board of Monarch regularly assesses investment strategy in conjunction with our investment adviser, Sanlam Asset Management.