

board of
directors



From left to right

David Nurek • Professor Fatima Abrahams • Hilton Saven • Ben van der Ross • Alan Smart

NON-EXECUTIVE CHAIRMAN

David Nurek (56) DIPLOMA IN LAW

Independent Non-executive Chairman of the Board and Chairman of the Remuneration and Nomination Committee

David Nurek has been associated with the Lewis Group for over 20 years. He was appointed non-executive Chairman of Lewis Stores (Pty) Ltd in 2001 and as non-executive Chairman of the Board of Lewis Group on 15 July 2004. He resigned from the Board of Lewis Stores (Pty) Ltd in August 2004.

David practised as a commercial attorney at Sonnenberg Hoffmann Galombik for more than 30 years, ultimately serving as Chairman. In July 2000 he moved to Investec Bank and took up the position of Regional Chairman Western Cape, Investec Group. He also serves on the boards of, amongst others: New Clicks Holdings Limited, Foschini Limited, Sun International Limited and Pick 'n Pay Stores Limited.

EXECUTIVE DIRECTOR

Alan Smart (61)

Chief Executive Officer

Alan Smart was appointed Chief Executive Officer of Lewis Stores (Pty) Ltd in 1991 and of Lewis Group on 22 June 2004. He is responsible for all aspects of the group.

Alan joined Lewis in 1969. During this period he has held various financial and operational positions including Credit Director between 1981 and 1984 and joint Managing Director between 1984 and 1991.

From 1995, in addition to his South African responsibilities, he was appointed Chairman of GUS Canada Inc., a retail furniture group of 65 stores in eastern Canada and oversaw a turnaround programme.

Alan was appointed to the Board of GUS plc in 1996 and subsequently resigned on 3 October 2004.

NON-EXECUTIVE DIRECTORS

Hilton Saven (53) B.COM, CA(SA)

Independent Non-executive Director and Chairman of the Audit and Risk Committee

Hilton Saven was appointed as an independent non-executive director of Lewis Group on 22 June 2004.

Hilton is a chartered accountant and has pursued a career in the accounting profession since 1975 with the firm Moores Rowland, currently being the senior partner of the Cape Town practice and Chairman of Moores Rowland South Africa. He consults widely to private and public companies, particularly in the sphere of corporate finance and holds various directorships. His varied professional experience across numerous sectors enables him to add substantial value in relation to the Lewis Group's accounting and financial disclosure obligation in relation to corporate governance, transaction structuring and communication with shareholders. He is the independent non-executive Chairman of Truworths International Limited.

Ben van der Ross (59) DIPLOMA IN LAW

Independent Non-executive Director

Ben van der Ross was appointed as an independent non-executive director of Lewis Group on 22 June 2004.

Ben practised as an attorney for 18 years and continues to consult for Van Der Ross Motala attorneys. He has been a director of the Urban Foundation, a director and later deputy CEO of the South African Rail Commuter Corporation Limited and Business South Africa. He was a commissioner of the Independent Electoral Commission for the first democratic elections in South Africa in 1994. Ben is currently appointed to the boards of, amongst others: Naspers Limited, FirstRand Limited, Pick 'n Pay Stores Limited and Momentum Group Limited.

Professor Fatima Abrahams (43) B.ECON(HONS), M.COMM, D.COMM

Independent Non-executive Director and Chairperson of the Transformation Committee

Professor Fatima Abrahams was appointed as an independent non-executive director of the Board of Lewis Group and its Remuneration and Nomination Committee on 1 September 2005. She has recently been appointed as Chairperson of the newly-formed Transformation Committee.

Fatima is currently a professor in the Department of Industrial Psychology at the University of the Western Cape and is the Chairperson of TSIBA Education (endorsed by CIDA Education). She is also a consultant in the human resources field. Currently Fatima serves on the Board of Foschini Group Limited as a non-executive director and is a member of their Remuneration and Transformation Committee.

corporate social

responsibility

The group is committed to uplifting the communities which we serve. The main objective of our social responsibility plan is to sponsor projects which strive for economic prosperity and growth, yet encourage environmental and social progress.

Black Economic Empowerment (BEE)

The achievement of a “BB” EmpowerDEX rating in May 2006 establishes a solid platform to progress broad-based empowerment within the group. To consolidate and to further improve our credentials, the Board has formed a Transformation Committee in March 2006. Similarly, on the executive management level, a transformation committee has been formed to reinforce the implementation of the current strategies.

Transformation

We are committed to ensuring a workforce that is representative of the demographics of South Africa and our customer base. In 2000, a five-year employment equity plan was compiled after consultation with stakeholders, including the trade unions. The targets set for 2005 have been met. The group will continue to monitor the progress of this strategy and senior management are responsible for its successful implementation.

All staff received free shares at date of listing and the majority of recipients were from previously disadvantaged communities.

To support the process of transformation, staff drawn from previously disadvantaged groups have been assisted in their development through participation in training programmes. In addition, a development pool comprising staff from previously disadvantaged communities, who have been identified as having management potential, are receiving further training and exposure.

Procurement and enterprise development

A substantial amount of merchandise is procured from suppliers, which are mostly small, medium and micro enterprises and mostly owned by persons

from designated groups. During the year, 40% of purchases in the furniture category were bought from Black Economic Empowerment (BEE) suppliers. In addition 90% of all vehicles purchased were bought from a BEE vehicle dealership and approximately 30% of our rental premises are owned or controlled by previously disadvantaged individuals. Our payment terms are 30 days, compared to the average retail payment term of 90 days, which support the cash flows of these suppliers. Our enterprise development initiatives include supporting small black-owned businesses that provide services to our group. Financial assistance is also given to these businesses.

HIV/AIDS

We have an HIV/AIDS awareness programme which is integrated into the regular company training programmes available to our staff. The objective of the course is to advise staff members of the effects of AIDS and available prevention methods. In addition, brochures are regularly distributed to staff.

During the current year, counselling, advice and assistance was provided to employees who requested it as a consequence of their personal circumstances. These services are provided at no cost to employees and are outsourced, guaranteeing total confidentiality.

Lewis has introduced a new programme to employees where a contracted service provider will provide the following services:

- Employees have access to post-AIDS exposure telephonic counselling through the service provider's care centre.
- The cover includes employee and immediate family.
- The affected person is covered for initial medication, a number of free consultations and assistance in locating the nearest clinic for further treatment.

The group bears the cost of this cover on behalf of all its employees.

Communities

We are committed to the national community which we serve.

Lewis has sponsored the building of two classrooms with full electrical fittings and connections and a 5 000 litre rainwater tank for the Fabeni Primary School in the Tugela Ferry District in rural KwaZulu-Natal. The project was managed by Project Build (formerly known as Natal Schools Project), a charitable trust. Project Build aims to improve the quality of life for disadvantaged communities in KwaZulu-Natal by addressing their need for better educational and community facilities.

The school which we are sponsoring, currently accommodates 194 learners in three existing classrooms. A substantial number of classes are conducted in the open.

The building of these classrooms was done utilising labour from the local community. The project was completed by the end of April 2006.

Lewis has also fully furnished the HOKISA Peace Home in Masiphumelele in the Western Cape. HOKISA, a non-profit organisation, cares for children infected or affected by HIV and AIDS who cannot be looked after by their own parents or family. Furthermore, the Peace Home is also used as a meeting place for group discussions for the prevention of HIV/AIDS. All employees of the home are residents of the Masiphumelele township who receive skills training at HOKISA and have become educators on HIV/AIDS in their community. The home was opened in November 2005.

Lewis assists local Cape Town-based orphanages with ad hoc requirements as and when they are required. We have donated furniture, food, paid school fees, medical bills and embarked on clothing and toy collection drives for the children. In addition, clothing and gifts for each child at selected orphanages was bought during the Christmas season.

Lewis is one of the major sponsors of the Community Chest Twilight Run, an annual event in Cape Town. The proceeds of the thousands of entries to this run contributes to the Community Chest's fund-raising. We sponsored the major prizes and our stores in the Western Cape distributed entry forms and handled registration.

Other assistance is provided as follows:

- contributing to the annual Cycle-4-Kids ride where three teams totalling 60 cyclists cycled from Johannesburg to Durban to raise funds for designated charities;
- participated in the Get a Child to Work Project by exposing pupils from disadvantaged schools to the functioning of the business;
- providing financial assistance and donations of kit to sport clubs in previously disadvantaged areas;
- participation in the local Woodstock upliftment project where the group's head office is located; and
- donations to various non-profit organisations are made, in response to requests received.



The Lewis Club

Through the Lewis Club the following contributions have been made to the social and economic upliftment of our communities:

- The provision of Damelin education bursaries to the value of R2 million per year to Club members, thereby assisting predominantly previously disadvantaged Southern Africans to further their education.
- Two 24-hour toll-free lines offer Club members legal, healthcare, HIV and parenting advice. The legal and healthcare advice lines each average 9 000 calls per month at a cost of approximately R180 000 per month. These services provide a much-needed free service to customers, particularly those living in rural areas.
- The top three Club prize winners select charities of their choice and each month R14 000 donations are made to these selected charities on their behalf.

Employees

Our business success relies on a productive workforce, where sound employee relations are key. We aim to create an environment where loyal people with strong entrepreneurial and work ethic, are

rewarded and the skills and experience of the staff are retained to ensure the enduring performance of the group.

In particular, Lewis is aware of the costs associated with employee turnover and the cost of acquiring and training new staff. Consequently, priority is given to staff retention, particularly those who show potential to grow within the group. There are a number of tenets to this strategy, one of which is to reward employees who contribute to the success of the group and secondly, to create a culture where employees feel a sense of belonging to the "Lewis family".

We provide for the development of our staff, offering an extensive range of training courses for all employees concentrating on the skills set for each of the job categories. There is an induction programme designed to ensure that the employee is operational within 20 working days of joining. It is the responsibility of operational management to continually identify candidates who require further training to enhance their performance and overall skills.

Staff with management potential are continually being identified and being given the opportunity to further develop their career within the group. Manager development programmes are in place to take the employee through junior management levels through to senior management roles.

A training team working closely with the human resources department travels throughout South Africa providing on-site and off-site training, supplementing interactive computer training on product knowledge at the stores. To further enhance the product knowledge of the staff, a weekly television broadcast to the stores has been introduced. We are accredited as a training provider within the Wholesale and Retail Sector Educational and Training Authority.

The group provides a number of other benefits:

- voluntary medical aid for employees subsidised by the company;
- compulsory membership of either the Lewis Provident Fund or SACCAWU National Provident Fund;



Restoration of Grahamstown branch.

- home loan assistance;
- educational bursaries;
- medical aid assistance;
- a subsidised canteen at head office; and
- counselling, advice and assistance to the employees who request such as a consequence of difficult personal circumstances.

We recognise our employee's rights to associate freely and to bargain collectively and a recognition agreement exists with the South African Commercial, Catering and Allied Workers' Union (SACCAWU).

Environment

We recognise that our activities do impact on the environment. The impact is minimised through adopting a strategy of regularly reviewing the group's activities and compliance with relevant legislation.

The main areas of focus are:

- minimising the usage of electricity and water;
- wastage disposal companies are contracted to recycle the group's wastage, which relates mainly to consumables such as stationery, paper and plastic; and
- the optimisation of fuel and oil consumption is monitored on a continuous basis. Particular attention is given to ensuring that vehicles operate efficiently and the amount of travel for delivery purposes is minimised.

There is also a commitment to our social heritage. The building of our Grahamstown property, which was designated as a national monument, was destroyed by fire. The company decided to restore the building to its original architectural style and structural design. We ensured that all the necessary restoration endeavours were in keeping with the original national monument.

With respect to our suppliers, where practicable, we review their activities and supply chain to determine the impact on the environment and communities.

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
Directors			
D M Nurek	4	4	2
A J Smart ^④	4	4	2
H Saven	4	4	2
D A Tyler ^①	1	1	–
B van der Ross ^②	3	2	2
F Abrahams ^③	2	nr	1

^① David Tyler resigned on 5 August 2005. He attended all Board and committee meetings until date of resignation.
^② Ben van der Ross joined the Audit and Risk Committee on 29 August 2005, the date of the second Audit and Risk Committee meeting.
^③ Professor Fatima Abrahams was appointed to the Board and the Remuneration and Nomination Committee on 1 September 2005.
^④ 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.