

# corporate governance

## Introduction

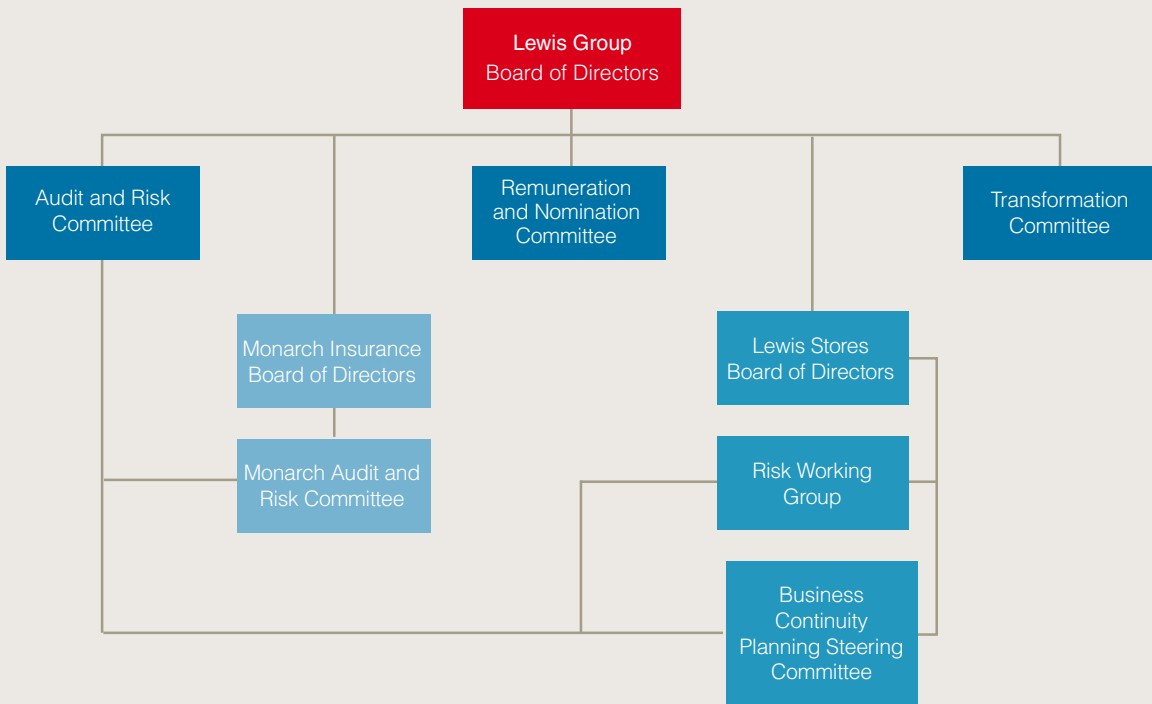
Lewis Group strives to ensure that high standards of corporate governance are consistently practised. The group therefore embraces the principles of integrity, transparency and accountability in its dealings with stakeholders.

The board confirms 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).

Governance structures and processes are regularly reviewed in response to changing requirements and to ensure alignment with best practice.

## Governance structure

### Board and committee structure



## Board of directors

### Board responsibilities

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

- adopting strategic plans;
- approval of budgets;
- monitoring operational performance against approved budgets;
- ensuring effective risk management and internal control;
- overseeing director selection, orientation and evaluation;
- approving significant accounting policies;
- ensuring legislative and regulatory compliance;
- assessing the sustainability of the group as a going concern;
- approving the annual and interim financial statements;
- ensuring balanced and understandable communication to stakeholders; and
- matters considered crucial for business success.

A clear division of responsibility is embedded in the board charter. The board has delegated authority to the chief executive officer and the directors of Lewis Stores for the implementation of the strategy and the ongoing management of the business.

### Board composition

The board consists of four independent non-executive directors and two executive directors. Background information on the directors appears on page 11 of this report.

Alan Smart, the chief executive officer, retires in September 2009 and will be succeeded by Johan Enslin who will be appointed as an executive director with effect from 1 October 2009. Alan Smart will continue to serve on the board as a non-executive director.

Directors do not have a fixed term 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, independence and ability to contribute to board level debate.

### Board meetings

The board meets four times a year and additional meetings may be convened. Meetings are conducted in accordance with formal agendas, ensuring that all substantive matters are addressed and monitored. Any directors may request additional items to be included on the agenda.

Newly appointed directors participate in an induction programme which outlines their fiduciary responsibilities and provides company and industry background information.

A self-evaluation of the board's performance is undertaken annually.

### 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 professional advice at the company's expense after consultation with the chairman of the board. Directors also have unrestricted access to all company information.

# corporate governance *continued*

## Board committees

The board of directors has delegated specific responsibilities to three board committees. 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.

Lewis Group Audit and Risk Committee	
Purpose and function	Composition
<ul style="list-style-type: none"> <li>• Approving the internal audit plan and reviewing the activities and findings of the department.</li> <li>• Evaluating the performance of the internal audit function.</li> <li>• Reviewing the audit plan of the external auditors, providing guidance on non-audit services.</li> <li>• Assessing the independence and objectivity of the external auditors.</li> <li>• Considering significant differences of opinion between management and external auditors.</li> <li>• Reviewing the adequacy of internal control and risk management.</li> <li>• Ensuring regulatory compliance.</li> <li>• Assessing the economic, environmental and social sustainability of the group.</li> <li>• Reviewing the financial reporting system, evaluating and approving accounting policies and the financial information issued to stakeholders in terms of IFRS.</li> </ul>	<p>The committee consists of three independent non-executive directors. The directors are financially literate and suitably qualified to perform their role.</p> <p>Meetings are also attended by the chief executive officer, chief operating officer, chief financial officer, company secretary, internal audit manager and the external auditors.</p>
	<p><b>Meetings</b> Four per year</p>



### Lewis Group Remuneration and Nomination Committee

Purpose and function	Composition
<ul style="list-style-type: none"> <li>• Developing a remuneration philosophy.</li> <li>• Ensuring senior executives are fairly rewarded.</li> <li>• Reviewing and approving compensation of executive directors, non-executive directors and senior executives.</li> <li>• Approving the award of share incentives.</li> <li>• Succession planning.</li> <li>• Ensuring the board has the required mix of skills, experience and other qualities to effectively manage the group.</li> <li>• Identifying and nominating candidates to fill board vacancies. Before nominating candidates, reference checks are performed.</li> </ul>	<p>The committee consists of four independent non-executive directors.</p> <p>The chief executive officer attends meetings at the invitation of the committee, except when matters relating to his own remuneration are under discussion.</p>
	<p><b>Meetings</b> Twice per year</p>

### Lewis Group Transformation Committee

Purpose and function	Composition
<ul style="list-style-type: none"> <li>• Developing and maintaining a transformation strategy.</li> <li>• Approving the transformation programme.</li> <li>• Setting targets in terms of the Codes of Good Practice of the Department of Trade and Industry (DTI).</li> <li>• Evaluating the group's performance against the DTI scorecard.</li> <li>• Confirming legislative compliance.</li> </ul>	<p>The committee consists of two independent non-executive directors, together with the chief executive officer, chief operating officer, merchandise director, human resources director and corporate social responsibility manager.</p>
	<p><b>Meetings</b> Twice per year</p>

# corporate governance *continued*

## Monarch Insurance Company Limited (“Monarch”)

Monarch Insurance Company Limited is the group's short-term insurer. Knowledge and experience of short-term insurance is considered in appointing directors to the board. Two of the non-executive directors, R L Shaw and R I Sanger, provide insurance advisory services to Monarch.

A formal report on the investment portfolio by Sanlam Investment Management is presented at each board meeting, covering market conditions and expectations, asset allocation, investment returns, review of the investment portfolios and recommendations on the investment strategy.

Monarch Board	
Purpose and function	Composition
<ul style="list-style-type: none"> <li>Approval and oversight of strategic plans for the insurer within the parameters of the overall strategic direction of the group.</li> <li>Approval of budgets.</li> <li>Monitoring operational performance against budgets.</li> <li>Regular review of underwriting criteria.</li> <li>Adoption of asset allocation strategies for the investment portfolio, based on recommendations from Sanlam Investment Management who manage the portfolio on Monarch's behalf.</li> <li>Review of the performance of the investment portfolio against benchmarks.</li> <li>Ensuring regulatory compliance.</li> <li>Ensuring effective risk management and internal control.</li> <li>Assessing director selection, orientation and evaluation.</li> <li>Approving significant accounting policies.</li> <li>Approving the annual financial statements.</li> </ul>	<p>The board consists of four non-executive directors and two executive directors.</p>
	<p><b>Meetings</b> Four per year</p>

Monarch Audit and Risk Committee	
Purpose and function	Composition
<ul style="list-style-type: none"> <li>Reviewing the audit plan relative to the group's audit plan.</li> <li>Providing guidance on non-audit services.</li> <li>Ensuring regulatory compliance. The committee is also responsible for the group's compliance with the Financial Advisory and Intermediary Services Act.</li> <li>Reviewing the financial reporting system, evaluating and approving accounting policies and approving the financial statements.</li> <li>Addressing risks specific to the company that have been identified in the group risk management policies.</li> </ul>	<p>The committee consists of four non-executive directors.</p> <p>Meetings are attended by the chief executive officer, chief financial officer, company secretary, the group's internal audit manager and external auditors.</p>
	<p><b>Meetings</b> Four per year</p>

## Lewis Stores

Lewis Stores (Pty) Ltd is the main trading subsidiary of the group. The company sells a selected range of furniture, appliances and home electronics on credit through 380 Lewis, 86 Best Home and Electric and 20 Lifestyle Living stores.

Lewis Stores Board	
Purpose and function	Composition
<ul style="list-style-type: none"> <li>• Adoption of strategic plans.</li> <li>• Providing strategic direction to senior management.</li> <li>• Monitoring operational performance and management.</li> <li>• Preparation and integrity of financial statements and all related information.</li> <li>• Maintaining adequate accounting records.</li> <li>• Adequately safeguarding, verifying and maintaining accountability of assets.</li> <li>• Monitoring key performance indicators of the business.</li> <li>• Ensuring regulatory and legislative compliance.</li> <li>• Risk management.</li> <li>• Developing a corporate code of conduct.</li> <li>• Assessing composition and effectiveness of board.</li> </ul>	<p>Consisted of eight executive directors, namely the chief executive officer, chief financial officer, chief operating officer, directors of credit, marketing, merchandise, human resources and information technology.</p>
	<p><b>Meetings</b> Four per year</p>

### Governance committees of Lewis Stores

- **Risk Working Group (RWG)** conducts a risk self-assessment on a biannual basis to evaluate any change in business risks and identify emerging risks which may require mitigation. Following each assessment an appropriate course of action is agreed to mitigate or manage the risks identified. Responsibility for each risk is assigned by the RWG to the appropriate executive or line manager.
- **Business Continuity Planning Steering Committee** manages the business continuity plan (BCP) which assesses potential environmental disasters, disruptions, loss of utilities and services, equipment or system failure, serious information security incidents and other emergency situations. The BCP covers all the key business processes identified as critical to the functioning of the group. The plan is tested periodically in a simulated environment.
- **Executive Committee** consists of fourteen members, including the eight directors of Lewis Stores.

# corporate governance *continued*

## Board and committee attendance

### Lewis Group Limited

Non-executive directors	Remuneration and			
	Board	Audit and risk	nomination	Transformation
Number of meetings	4	4	2	2
D M Nurek+	4	4	2	2
H Saven	4	4	2	n/a
B J van der Ross	3	3	2	n/a
F Abrahams	3	n/a	2	2
<b>Executive directors</b>				
A J Smart	4	4*	2*	2*
L A Davies	4	4*	n/a	n/a
<b>Management</b>				
J Enslin	4*	4*	n/a	2
J Horn#	n/a	n/a	n/a	–
N Jansen*	n/a	n/a	n/a	1
D Loudon	n/a	n/a	n/a	2
S Röhm	n/a	n/a	n/a	2

+ Chairman

\* Appointed 4 March 2009

# Resigned 31 May 2008

• By invitation

### Monarch Insurance Company Limited

Non-executive directors	Board	Audit and risk
Number of meetings	4	4
D M Nurek	4	4
R L Shaw	4	4
R I Sanger	4	4
H Saven*	2	2
<b>Executive directors</b>		
A J Smart+	4	4*
L A Davies**	4	4*

+ Chairman

\* Previously an alternate director, appointed full director on 3 November 2008

\*\* Appointed chief executive officer of Monarch Insurance on 10 November 2008

• By invitation

## Lewis Stores (Pty) Ltd

Directors	Board
Number of meetings	4
A J Smart	4
L A Davies	4
J Enslin	4
B van Aswegen	3
C Irwin	4
N Jansen*	3
D Loudon**	2

\* Appointed 1 September 2008

\*\* Appointed 8 October 2008

## Compliance and codes of conduct

### Regulatory and legislative compliance

New and proposed legislation impacting the group includes the following:

- Insurance Laws Amendment Act: This legislation mainly affects the group's insurer, Monarch Insurance Company Limited. The group is currently implementing the Act.
- Consumer Protection Act: An analysis of the legislation has been concluded and owing to the high ethical standards adopted by the group in its dealings with customers, it is anticipated that limited refinements will be required. The Act contains a number of transitional provisions which allows for businesses to effect implementation by October 2010.
- Companies Act: Developments continue to be monitored to determine the impact on the group. The effective date of the legislation is expected to be mid-2010 to allow the Department of Trade and Industry to create the necessary infrastructure and enable companies to implement the necessary changes.

Legal compliance software was implemented during the year to monitor applicable laws, codes, regulations and

articles impacting on the group.

### Behavioural code

The group conducts its business with the highest levels of professionalism and integrity. The Lewis Group pledge is a behavioural code which outlines the standards of honesty, integrity and mutual respect which employees are required to observe.

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

A confidential hotline is available to all employees to report suspected incidents of fraud or dishonesty.

### Personal share dealings

In terms of the group's insider trading policy, directors and specifically identified staff are restricted from dealing in the shares of Lewis Group during closed periods.

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 and Risk Committee.

It is also mandatory to notify the company secretary of any dealings in the company's shares. This information is then disclosed to the JSE Limited and published on SENS.

A register of share dealings by directors is maintained by the company secretary and reviewed by the board.

### Stakeholder communication

The group is committed to presenting a balanced and understandable assessment of the financial position to all stakeholders. Management has an active contact programme with institutional investors and investment analysts, with activities including interim and final results presentations in Cape Town and Johannesburg, post-results roadshows to investors, regular meetings with local and international fund managers and analysts, as well as participation in broker conferences locally and offshore.