CORPORATE GOVERNANCE

introduction

Truworths International and its subsidiaries are committed to sound corporate governance, recognising that good governance is intrinsically beneficial to the group's functioning and success, while also meeting the investment community's expectations.

The group's directors subscribe to the principles contained in the Code of Corporate Practices and Conduct recommended by the 2002 King Report on Corporate Governance for South Africa ("the Code"). Their undertaking to achieve substantial adherence with the Code by 30 June 2003 was founded on the appreciation that the processes and structures it recommends lead to clearer demarcation of responsibilities, balanced decision-making, enhanced communication and rigorous practices, all of which serve to sustain the group's development.

Understanding that the attainment of high standards of governance is an ongoing process, the board is committed to the objective of aligning the group's governance regime with internationally acceptable standards.

Key achievements during the period towards the attainment of this objective include:

- ☐ The appointment to the board of an additional independent, non-executive director.
- ☐ Enhanced accountability of the audit committee through the appointment thereto of two independent non-executive directors.
- ☐ The development, adoption and communication of a code of ethics.
- ☐ Performance evaluations of the CEO and individual directors, both executive and non-executive.
- ☐ The adoption of acode of conduct to address directors' conflicts of interests.
- ☐ Enhancement of the group's risk management efforts through improved functioning of the risk committee, and the recent appointment of a group risk manager.
- ☐ Enhanced independence of the external auditors as a result of the adoption of a policy in relation to their provision of non-audit services.
- ☐ The development of a directors' share dealing code and a board charter.
- ☐ The review of board committee charters and the adoption of formal reporting practices to the board by committee chairmen.
- ☐ Voting by means of a ballot on contested resolutions, and the public dissemination of the results of resolutions, taken at the annual general meeting.
- ☐ Renewed focus on the comprehensive disclosure of both financial and non-financial information in the group's annual report.
- ☐ The meeting of non-executive directors as a separate group under the chairmanship of an independent non-executive director, Mr AE Parfett.

The board of directors has noted the recent issue of revised Listings Requirements of the JSE Securities Exchange South Africa and, in particular, specific obligations relating to corporate governance requiring compliance by 1 January 2004. Steps are being taken to meet these requirements by the scheduled date.

The corporate governance structures, policies and procedures currently in place in the group, together with details of the limited areas where compliance with the Code has yet to be attained, are set out below:

board structure and responsibilities

The company has a unitary board structure. Its primary responsibilities are:

- ☐ to review the group's strategic direction,
- ☐ to make material investment and disinvestment decisions,
- ☐ to appoint the chief executive officer and monitor the performance of executive management,
- ☐ to consider financial reports, budgets and business plans presented by executive management,
- ☐ to contribute to policy formulation, risk management initiatives and matters of governance including communication with shareholders, and
- ☐ to approve all new appointments to the board.

The respective roles of the board of the company, being a listed investment holding company, and of the board of the wholly-owned retailing subsidiary company, Truworths Limited, have been documented to clarify their respective areas and levels of authority.

Accordingly, the board has reserved for itself decision-making in regard to material issues, with materiality

CORPORATE GOVERNANCE

quantified in relation to specified transactions. In addition, as standard practice all significant matters affecting the group are brought to its attention for noting or decision.

The board of Truworths Limited has responsibility for all matters associated with retailing including overseeing and managing the group's human resource, finance, buying, merchandise planning, store operations, store architecture and design, merchandise distribution, franchising, customer relationship management and information technology functions.

BOARD COMPOSITION

The company's board, whose members' names and particulars are set out on page 4, comprises five non-executive directors, all of whom are now categorised as independent, and three full-time salaried executive directors.

The qualifications and experience of the non-executive directors, coupled with the fact that they have no material contractual relationships with the group, help to ensure that their views carry substantial weight and that their judgement in relation to issues affecting the group can be exercised independently.

The non-executive directors, acting individually and collectively, bring independent judgement to bear in relation to the group's strategic plan, the consideration of acquisition possibilities, deployment of group resources, the functioning of the board, key executive appointments, annual report disclosures and corporate practices and conduct.

The appointment process in respect of new directors is formal and a matter on which all board members are consulted and are required to agree. Each year one third of the board is required, in terms of the company's articles of association, to retire at the annual meeting of shareholders. Retiring directors, who are those that have been longest in office, may offer themselves for re-election. Directors appointed between these meetings are required to have their appointments confirmed at the following annual general meeting.

Those recently appointed as directors have extensive experience serving on the boards of substantial companies and are professionally qualified. As a result, there has not been a need to conduct training courses for new directors, although courses would be presented in accordance with the group's orientation and development programme, should the need arise.

board functioning

Board meetings were held quarterly in August, November, February and May during the period under review. Following her decision to resign from the board with effect from 30 June 2003, Mrs LA Tager requested and was granted leave of absence in respect of the February and May meetings. Except for the November and May meetings, when Mr BD Lapin (who resides in the USA) tendered his apologies for being unable to attend, all directors were in attendance at all meetings.

Board meetings are convened by formal notice incorporating a detailed agenda supported by relevant written proposals and comprehensive reports. Management aims to disseminate meaningful, relevant and complete information in a timely manner prior to board meetings, as this facilitates adequate preparation for in-depth discussion at these meetings.

The reports distributed, together with presentations that were made at the meetings, dealt not only with financial issues but also with qualitative matters like the group's values and ethics, risk management, social responsibility and governance enhancement.

A number of decisions were taken between board meetings by written resolution as provided for in the company's articles of association. In addition, executive management consulted with non-executive directors on matters of importance as they arose during the period.

Mr MS Mark has occupied the offices of chairman of the board and chief executive officer since 1 July 2000. The board is of the view that this role combination has been acceptable over the past three years, given the number and independence of the non-executive directors, the extent of their participation, the governance systems in place in the company and its sustained superior financial performance.

The board is however currently reviewing this situation in the light of recently revised JSE Securities Exchange South Africa Listings Requirements.

Board members have ready and direct access to the company secretary in relation to the affairs of the company and their roles and responsibilities. They are entitled to obtain independent professional advice regarding company matters at the company's expense and, during the period under review, they availed themselves of the company secretary's services and legal advice on a number of issues.

CORPORATE GOVERNANCE

Board members have access to all company information, records, documents, property and management.

BOARD COMMITTEES

The board has constituted the following committees, delegated to them specific responsibilities and imposed upon them prescribed reporting obligations in terms of written charters:

Audit committee

This committee's primary objective is to assist the board in discharging its responsibilities to:

- maintain adequate accounting records and functionally effective financial reporting and internal control systems,
- ensure compliance of published financial reports with relevant legislation, regulations, accounting practices and good corporate governance, and
- safeguard group assets.

The committee also facilitates effective communication between the board, management and external and internal auditors and provides an objective and independent forum for the resolution of significant accounting, compliance and reporting related matters.

This committee currently comprises the following three members, after the retirement of Messrs PJ Lavies and DGH Stewart from the committee in February 2003:

- Mr H Saven, an independent non-executive director and chartered accountant in public practice, who was appointed to the committee with effect from 1 February 2003 and who is the committee's Chairman.
- Mr AE Parfett, an independent non-executive director and retired retail executive.
- Mr RG Dow, an independent non-executive director and chartered accountant who was appointed to the committee on 23 May 2002.

During the period under review, the committee's accountability to the board was significantly enhanced by the appointment of two independent non-executive directors, in the place of two retiring independent professional committee members who were not directors of the company.

Further material developments during the period, aimed at enhancing auditor independence, included the adoption by the committee of a clear policy, based on best practice in the USA, to guide management when deploying the external auditors in rendering non-audit services. The committee also approved the external auditors' fees.

The committee typically meets three times a year and met in August, February and May during the period under review. Members were generally present at committee meetings, the quorum for which is two members personally present, except for Mr Dow in respect of the August meeting when his apologies were tendered.

The company secretary, who acts as the committee secretary, together with the group finance director, internal audit managers and senior employees of the finance department, as well as the external auditors, submitted written reports to and were in attendance at these meetings. The internal audit managers and the external auditors have free and unrestricted access to the Chairman of the committee.

Ethics and governance committee

The committee's primary objective is to assist the board with discharging its responsibilities to:

- determine the moral climate of the group's business,
- assist with the formulation of group policies on matters involving ethics and governance,
- ensure compliance by the group with relevant legislation, regulations and codes of conduct in the spheres of ethics and governance, and
- develop, maintain and monitor adherence with the group's value system.

The committee enables effective communication between the board and management in relation to ethics and governance matters and provides an objective and independent forum for the resolution of significant related issues.

The committee comprises three members:

- Mr BD Lapin, an independent non-executive director who is the committee's Chairman,
- Dr CT Ndlovu, an independent non-executive director, who was appointed to the committee in February 2003 following the grant of leave of absence to Mrs LA Tager pending her resignation,
- Mr PA McInnes, the Truworths Limited human resources director who also

CORPORATE GOVERNANCE

acts as the committee secretary. [Mr McInnes has resigned from the company effective 30 September 2003].

Members of the committee have direct access to external consultants and to the company secretary on matters of compliance or any other issues that relate to the charter of this committee.

Typically the committee meets formally as the need arises and the quorum is two members personally present. Two meetings, held in August and February and at which all members were in attendance, took place in the period under review. Committee members were frequently consulted by executive management during the period.

The committee was instrumental in developing the group's code of ethics, as well as the code of conduct aimed at addressing directors' conflicts of interest.

Remuneration committee

The committee's primary objective is to assist the board in discharging its responsibilities to:

- ensure that the group's senior executives and non-executive directors are rewarded in accordance with the group's compensation objectives, with due attention to retention issues, performance and best international practice,
- advise, recommend and review appropriate reward strategies and policies for group employees, including evaluation methodologies, and
- determine the remuneration packages of the senior executives and non-executive directors to support the group's strategic objectives.

The committee comprises the following people, and the human resources manager acts as its secretary:

- Mr RG Dow, an independent non-executive director who is the committee's Chairman,
- Mr H Saven, an independent non-executive director, who was appointed to the committee in February 2003 following the grant of a leave of absence to Mrs LA Tager pending her resignation.

At the invitation of the committee Mr Mark, the chief executive officer, attends committee meetings except when matters relating to his compensation are under discussion.

Generally the committee meets quarterly and during the period under review it met in August, November, February and May. All members were present at these meetings at which the quorum is two members.

Key principles adopted by the committee during the financial period in relation to executive compensation were the requirement that remuneration packages be benchmarked against norms in the retail sector, and that performance-based elements of compensation be linked to predetermined and measurable group and individual objectives.

board compensation

The compensation of the executive directors and management is determined annually by the remuneration committee, which obtains input and detailed reports from independent professional advisers. In doing so, the committee takes into consideration the financial performance of the group as compared to the relevant operating budgets for the year and the relative rating of the company when benchmarked against a peer group of companies listed on the JSE Securities Exchange, South Africa. Additionally the committee ensures that the remuneration of senior executives is assessed against achievement of clearly defined objectives for the year. The committee has due regard for comparative levels of compensation both locally and abroad, and the need to retain and motivate key members of staff. A significant element of the executive directors' compensation is performance-based and incorporates bonuses and the granting of options in respect of the company's shares under the rules of the share scheme.

The non-executive directors receive directors' fees, which are regularly benchmarked against fees payable by comparable companies listed on the JSE Securities Exchange, South Africa. The committee takes into account levels of contribution, as well as membership and chairmanship of board committees of each non-executive director. Some of the non-executive directors hold options or shares acquired under the company's share scheme.

Details of their remuneration on an individual basis are given in note 24.1 on page 81.

The share and option holdings of the individual members of the board are disclosed in note 24.2 on page 82 of this report.

CORPORATE GOVERNANCE

stakeholder communication

In its communications with stakeholders, particularly the investment community, the company's aim is to present a balanced and understandable assessment of its position, performance and prospects.

Management aims to communicate in a clear, open, timely and realistic manner, and to communicate in substance rather than in form in financial reporting, formal announcements, media releases, annual meetings, presentations and dialogue with analysts and institutional shareholders.

During the period under review the company has continued with its policy of communicating periodic financial information to employees through a more understandable and shorter form of report. This is distributed with the release of formal financial announcements. Continued emphasis is being given in financial reports to non-financial affairs, including employment equity, social responsibility and environmental issues.

The group's 2002 annual report was placed in the excellent category, and positioned in the top 20 in the Excellence in Corporate Reporting survey of the top 100 JSE Securities Exchange South Africa listed companies, conducted by Ernst & Young in conjunction with the University of Cape Town. Management is of the view that this award is testimony to the quality of the group's financial reporting.

internal control and internal audit

The group is continuously engaged in maintaining internal controls of a standard aimed at safeguarding the company's assets and ensuring that the systems of financial reporting contain complete, accurate and reliable information. These controls are subject to critical review and involve established practices and procedures, including regular reconciliations, dual signatories and segregation of duties.

Their effectiveness is monitored by the internal audit department, which reports its findings to the audit committee and has ready access to the chairman of that committee and the chief executive officer. The activities of the department supplement those of the external auditors, and the commitment to close liaison and responsibility synchronisation remains.

During the period the information systems auditor, based on recommendations made by the information systems audit unit of the external auditors, embarked on a plan to improve access control to the group's key information systems. Critical systems, and their associated risks were identified during the prior period, and have enjoyed continuing attention from an internal control perspective.

Operational audits conducted at stores, the distribution centre and head office to review levels of adherence with prescribed procedures have been conducted. The emphasis of these audits has been critically reviewed during the period to ensure focus on key performance indicators.

Towards the end of the period the internal audit function conducted a control environment review during which the processes in each business unit were studied from a risk and control efficacy perspective. The findings have been rated and a prioritised action plan, to deal with areas of weakness, has been compiled for management's attention.

The principle of the independence of the internal audit department remains sacrosanct, and the internal audit managers report on operational matters to the chief executive officer, and to the finance director only in relation to administrative matters.

responsibilities regarding financial reporting

The directors are responsible for preparing the annual financial statements so that they fairly present the financial position of the group and the results of its operations and cash flows for the period in accordance with South African Statements of Generally Accepted Accounting Practice and the South African Companies Act.

The responsibility of the external auditors is to carry out an independent audit of the annual financial statements in accordance with South African auditing standards, and to express an opinion as to whether the financial statements do provide fair representation.

The directors ensure that the annual financial statements provide the disclosures required by the JSE Securities Exchange, South Africa Listings Requirements and the Code, and incorporate appropriate accounting policies that, unless otherwise stated, have been consistently applied and are supported by reasonable and prudent judgements and estimates.

The directors are of the view that the accounting records and systems of internal control have achieved their

CORPORATE GOVERNANCE

intended purpose. They advise that no material loss, exposure or misstatement arising from a breakdown in the functioning of the systems of internal control or accounting have been reported to them in respect of the period under review.

To prepare annual financial statements, which fairly present the results and position of the group and which conform with South African Statements of Generally Accepted Accounting Practice, requires management to make certain financial estimates at year end in relation to future events.

This process of estimation involves making assumptions about future events and circumstances, and exercising judgement as to the impact thereof on the group's financial position and performance. Management's judgement is influenced by a host of factors, including prior experience, consumer confidence, analysts forecasts, business sentiment, actuarial procedures and changes in the macro economic and geo-politcal environments.

Although the group's recent history reveals that actual financial outcomes have not been materially different from mangement's expectations, predictions about the future by their very nature involve a degree of uncertainty.

Accordingly, management is of the view that, because of the extent of estimation involved, the accounting policies particularly in relation to the below-mentioned items are critical to an informed appreciation of the group's financial statements: inventories; trade receivables; export partnership participation; provisions; property, fixtures, vehicles, plant, equipment and software; and retirement benefit obligations.

GOING CONCERN

The annual financial statements contained in this annual report have been prepared on the going concern basis. The directors have had regard for the group's strong positive cash flows, the availability of extensive unutilised borrowing facilities and the revenue and cash budgets for the period to June 2004.

Based on this, and the expected maintenance by the group of its share of the fashion retail market, the directors have every reason to believe that the company and the group have adequate resources to continue in operation for the period ahead.

dealings in company shares

The group has a written policy in terms of which dealings in the company's shares by directors and employees are prohibited during closed periods that commence in mid-June ending 24 hours after the public announcement of the full period financial results, and mid-December ending 24 hours after the public announcement of the half-period financial result.

At least twice annually the company secretary informs directors and employees in writing about the provisions of the Insider Trading Act and the prohibitions it contains regarding dealing, or encouraging dealing by others, whilst in possession of non-public price sensitive information, or disclosing such information to others.

Dealings by directors in the company's shares advised to the company secretary are notified to the JSE Securities Exchange, South Africa in accordance with its requirements.

During the period the company developed and adopted a share dealing code, based on the Listings Requirements of the JSE Securities Exchange, South Africa and the recommendations of the Code. Amongst other matters, the share dealing code defines periods during which dealings are prohibited, obliges directors to obtain prior clearance before dealing, and clarifies that all transactions in the company's shares, including the grant and exercise of options, constitute dealings regulated by the Code.

employee participation and equity

The group seeks to provide a framework of employment equity in which individuals of ability and commitment are able to develop their careers regardless of their background, race, religion or gender. The group believes in open relationships with employees in which they feel valued and respected for their unique contributions.

The group provides an environment in which employees are able to respond positively to challenges, and to the dynamics of the business environment and the society in which the business operates.

The employment equity plan charts the process forward in terms of equitably representing disadvantaged personnel in the group's workforce over a period of time. Skill enhancement through structured programmes and on-the-job training and mentoring is given a high priority.

All employees who have been with the company for at least 12 months and who perform according to required standards are rewarded by participation in the company's share scheme.

values and ethics

The group's value system, which is core to its business philosophy, provides the foundation for ethical business behaviour and integrity. These values guide the way of doing business and interactions with all stakeholders. The value system supports all aspects of the codes of conduct and ethics that were developed and implemented during the period. These codes, together with the consistent application of policies, practices and a disciplinary code, commit the group to the highest standards of behaviour.

The business philosophy and value system have the unreserved commitment of the directors and, having been developed over a number of years in consultation with employees, meaningfully influence decision-making and business activities. Ongoing induction for new employees in relation to the business philosophy, and workshops to refine it as circumstances change, serve further to inculcate the value system and code of ethics in the culture of the group.

risk management

RESPONSIBILITY

The directors of the company have overall accountability for the group's risk management programme.

To assist the board with discharging its responsibilities in this regard, continuous oversight of risk management activities is undertaken by the directors of the wholly-owned subsidiary, Truworths Limited. Written reports compiled by the Chairman of the Risk Committee are presented to and critically reviewed by the company's board at each meeting.

Members of the executive management team have direct responsibility for risk management interventions in their functional areas. They report on these at meetings of the Truworths Limited board and key performance indicators have been determined for each executive whereby actual performance levels are regularly monitored against agreed targets.

A group risk manager whose activities are expected to facilitate a more co-ordinated risk management process across the group, has recently been appointed. Further benefits anticipated from this appointment include ensuring the recommendations of the Risk Committee are implemented, and that a culture of risk awareness is developed across the group.

The group's Risk Committee, operating under written terms of reference and reporting to the Truworths Limited board, monitors and evaluates group-wide risk management interventions.

The committee's objectives are to:

- ☐ Assist the directors of Truworths Limited to discharge its responsibilities to the board of Truworths International Limited to:
  - identify, assess, mitigate and manage significant risks facing the group,
  - develop risk management mechanisms which demonstrably enable dynamic risk identification, mitigation and communication, as well as business continuity, and
  - maintain functionally effective systems of internal control which are designed to safeguard group assets and investments and support business sustainability.
- ☐ Enable effective communication between the directors of Truworths Limited, the board of Truworths International Limited, the company secretary, the internal audit department, the group risk manager and external auditors.
- ☐ Provide an objective and independent forum to discuss and debate significant risk management related matters.

The Risk Committee comprises:

- ☐ Mr AJ Taylor (Truworths Limited's Deputy Managing Director), who acts as chairman
- ☐ Mr WM van der Merwe (Group Finance Director)
- ☐ Mr EF Cristaudo (Truworths Limited's Director of Customer Relations and Marketing)
- ☐ Mr JA Holtzhausen (Truworths Limited's Director of Information Systems), who was appointed to the committee with effect from 19 May 2003
- ☐ Mr C Durham (Company Secretary), who is also the committee's secretary.

Four meetings, which were held in August, November, January and May, took place during the period under review. All members were in attendance at these meetings except in respect of the May meeting when Mr WM van der Merwe tendered his apologies. A quorum is at least three quarters of the members personally present.

CORPORATE GOVERNANCE

Ongoing process

Risk management is regarded as a dynamic process of continuing interventions aimed at mitigating against business-specific, industry-wide and general risks so that, as far as is possible within resource limitations, the group's ongoing long-term economic sustainability can be assured.

Group executives have a "hands-on" approach to business operations and are able to identify, assess, transfer, avoid and manage the risks facing the group on a day-to-day basis.

Risk assessment exercise

A group-wide risk assessment exercise was conducted during May 2002 at the instance of the Risk Committee. The exercise required executives to document the risks identified and indicate how they were being managed, and to estimate probability of occurrence and possible loss to the group.

The risk assessment highlighted the need to manage the risks inherent in having a centralised distribution centre, as well as the physical risks posed to the tools supporting the group's merchandise selection and buying processes. It also revealed the need to balance reliance on key merchandise suppliers and the need to bolster succession planning initiatives.

The exercise emphasised the need for management to better understand the impact of the HIV and AIDS pandemic on the group's workforce and customer base, and for appropriate measures to be taken to manage the risk of damage to the group's reputation.

During the period under review notable progress was made by management to address the risk areas highlighted by the assessment, and others identified subsequently. Important developments in this regard include:

- ☐ The adoption and implementation of a philosophy and strategy to deal with the impact of HIV and AIDS on the group's workforce, based on the recommendations of the external consulting firm, the Health Monitor Group.
- ☐ The tasking of a project team to analyse distribution capabilities and requirements.
- ☐ An ongoing critical review, conducted by the merchandise buying and planning function of the group's supplier base, identified areas of over- and under-exposure. The review was also aimed at understanding financial and operational vulnerabilities and was tasked to consider joint initiatives to address supply continuity and succession issues.
- ☐ An evaluation by external consultants of the physical and operational risks at the head office, distribution centre, major stores and key suppliers sought to understand the degree of readiness for fire, security, health and safety risks.
- ☐ The finalisation and successful testing of the disaster recovery plan in respect of the business' key information systems deployed at the head office.
- ☐ The acceptance by the Truworths Limited board as an essential strategic imperative the development and implementation of an integrated, realistic and workable succession and staff development plan.

The risk assessment exercise for the 2003 calendar year is scheduled to be conducted in the last quarter and, amongst others, will build on the findings arising from the control environment review undertaken by the internal audit department earlier in the year.

Management is currently assessing proposals from external risk management advisers to assist in building our risk management capabilities, aligning risk management with business objectives and embedding a risk management culture in the group.

Business continuity

The group has updated and expanded its business continuity plan aimed at ensuring business continuity notwithstanding adverse operating conditions, including natural or man-induced disasters.

The plan's objective is to ensure that key business systems can become appropriately functional and populated with relevant data within an acceptable period of time on hardware accessible at a remote site. The three key off-site systems – Retek (a merchandise management and allocation system), Oracle Financials (a general ledger and accounts payable system) and Vision (a credit management system) – were tested and successfully brought into operation in a timely manner during the period.

Management is committed to extending the business continuity plan, currently focused on information technology, to include disaster recovery and business continuity strategies for other important

CORPORATE GOVERNANCE

business processes, as well as for the group's decentralised distribution centre and divisional offices.

Operational risk management

Operational risks are managed through detailed control systems that are under regular review to ensure integrity, appropriateness and coverage.

Inventory losses are minimised by strict adherence to internal control measures throughout the distribution chain, the use of independent security personnel and appropriate technologies.

Losses from debtors are mitigated by clearly defined and enforced credit granting policies, as well as pro-active debtor management techniques and the use of sophisticated "best-of-breed" customer relationship systems.

The group's insurance programme aims at insuring group assets and earnings against material loss and business interruption. The programme involves external insurance for catastrophic risks, and cost-efficient self-insurance in respect of non-catastrophic risks. Assets are insured at current replacement value, which is regularly reviewed.

Treasury risks are minimised through the adherence to a board approved treasury policy that is continuously amended as market conditions change. This policy permits investment of surplus cash only with the most highly rated counter-parties, and only in instruments that do not expose the group to extreme interest rate movements or undue tax risks. In terms of the policy, the use of derivative instruments is limited to hedging applications, and speculative positions are not permitted. All foreign currency import exposures are fully covered.

Fraud hotline

During the period management commenced a critical review of the effectiveness of the fraud hotline for the confidential reporting of fraudulent or other inappropriate behaviour resulting in risk to the group. An external service provider manages the hotline and relays the reports received to the internal audit function for investigation.

A campaign to create more awareness of the hotline, and to communicate reported incidents and management action taken is planned for the current period.

external auditors

The board is of the view that Ernst & Young, the external auditors, are able to express an independent opinion on the group's annual financial statements and conduct an objective assessment of internal controls. In forming this view the board has had regard for Ernst & Young's strictly enforced policy precluding their personnel from having a financial interest in the company, and for the reasons that Ernst & Young do not participate in management and are limited in their consulting engagements to the group.

The external auditors' annual audit plan, which incorporates the identification of significant risks and how they are to be addressed during the audit, is presented at a meeting of the audit committee before the commencement of audit fieldwork.

The external auditors have unrestricted access to the company's records and management. They furnish a written report to the company's audit committee on significant findings arising from the period-end audit and are able to raise matters of concern directly with the chairman of that committee.

conclusion

The group has continued the critical appraisal of its levels of conformance during the period, and the directors of the company are of the opinion that the governance framework and processes in the group have been materially upgraded as a result.

Notably, the company was placed in the second of five tiers in a survey, conducted by Deutsche Bank in August 2002, of corporate governance in 73 major South African companies. The survey measured the four factors of shareholder treatment, board independence, disclosure of information and business practices and ranked the company in the second tier alongside six others regarded as demonstrating strong governance. The first tier comprised four companies whose governance was rated as exemplary.

The board is thus confident that in many areas the group's standards of governance are aligned with good practice as measured against internationally determined benchmarks.

The challenge for the future remains the maintenance of an acceptable balance between the governance expectations of investors, stakeholders and regulators and the business imperatives of sustainable growth and above average financial performance in the competitive South African retail sector.