

# GOVERNANCE STRUCTURES

## COMMITMENT STATEMENT

*The board subscribes to sound values of good corporate governance, supporting the King Code of Governance for South Africa, 2009 (King III) principles and practices. King III became effective on 1 March 2010 and, in preparing to adopt this corporate governance code, the group undertook an externally-facilitated gap analysis exercise with PwC. Furthermore, the internal audit department extensively reviewed the group's current practice measured against both King III and the internal control model formulated by the Committee of Sponsoring Organisations of the Treadway Commission (COSO). The areas requiring attention in the journey towards compliance were:*

- **Sustainability measurement and integrated reporting systems**

The need to assist the board with an increased focus on sustainability matters and measurement thereof was addressed by establishing the risk and sustainability committee that held its inaugural meeting on 12 May 2010. The annual integrated report introduction and risk and sustainability committee report on pages 12 and 86 respectively, outline in detail the sustainability journey.

- **Risk management**

The group engaged PwC to assist in the design of an enterprise-wide risk management framework, methodology and process to ensure that this was fully embedded in the business. Monitoring the effectiveness of the risk management framework and process and providing risk management oversight and control was devolved to the risk and sustainability committee, the report of which can be found on pages 86 to 92. The internal audit risk-based plan was closely aligned to the risk management process outlined in the internal audit report on pages 82 to 85.

- **Combined assurance model**

Internal audit presented a widely-accepted model for effectively co-ordinating the efforts of management, internal and independent assurance providers, increasing their collaboration and developing a shared and holistic view of the group's risk profile. This model

provides an outline for an annual assurance plan that reduces duplication in audit processes while preventing assurance providers from overlooking key controls. In key risk areas where collaboration between assurance providers is required, the group provided for a degree of overlapping. The audit and compliance committee reviewed and approved this model during its meeting on 12 May 2010. The content of the annual assurance plan depends on the updating of the risk registers and clear articulation of the group's top risks. This update process is in progress.

- **Stakeholder communication**

The results of the stakeholder identification process can be viewed on page 16 of this report. The process of forming a policy on stakeholder communication and identifying stakeholders' most material issues commenced during the year under review with the initial focus being on internal stakeholders. The process will be extended to the wider stakeholder community in the current financial year.

- **IT governance**

A management information technology (IT) steering committee was established during the year to assist the board in its responsibility for IT governance, which in turn the board has devolved to the audit and compliance committee.



Thus the IT steering committee, reporting to the audit and compliance committee:

- provides strategic leadership for IT by aligning IT strategic objectives and activities with enterprise strategic objectives and processes;
- prioritises IT project initiatives and delivers IT investment recommendations for board approval; and
- ensures open communication between the IT department and the other functional units to promote collaborative planning.

## COMPLIANCE

While the board believes that the group complies with the spirit of corporate governance embodied in King III and endeavours to focus on those areas identified for improvement, it notes that the following principle will not be adopted:

### Principle 2.16:

“The board should select a chairman of the board that is an independent non-executive director. The CEO of the company should not also fulfill the role of chairman of the board.”

The company has operated for a number of years with joint non-executive chairmen Mr SB Cohen and Mr LJ Chiappini, who were not classified as independent. The joint chairmen retired and were appointed honorary chairmen with effect from 26 August 2010 and as such, do not fulfil any chairman functions in terms of King III.

The board has appointed as chairman Mr AE McArthur, previously the deputy chairman and CEO and who is not considered independent. However, the board believes that this can be supported because:

- the chairman is totally independent of the CEO;
- there is an independent, non-executive lead director in place providing guidance on governance issues at board level;
- there exists a balance of power and authority on the board so that no one individual has unfettered power of decision making; and
- the chairman has considerable fashion-value retail experience and skills considered essential at the chairman level.

Disclosure in this annual integrated report demonstrates the group's commitment to compliance with the King III principles and the actual extent of compliance achieved. In the sustainability journey, the board will focus on those areas where improvements can be made, including stakeholder engagement and sustainability measurement.

# BOARD OF DIRECTORS

## Board structure

Mr Price Group Limited has a unitary board structure. At the end of the financial year the board comprised three executive, 10 non-executive and four alternate directors. As reported last year, the board has continued its plan to increase the number of non-executive directors, expand the non-retail skills base and alter the age profile, racial and gender demographics, while preserving the continuity required for stability. Consequently, the following restructuring took place on 26 August 2010:

- Mr LJ Chiappini and Mr SB Cohen resigned as joint chairmen but continue serving as non-executive honorary chairmen;
- Mr AE McArthur, formerly deputy chairman and CEO, became executive chairman;
- Mr SI Bird was appointed CEO;
- Mr S van Niekerk and Mr CS Yuill retired as directors;
- Mr SA Ellis and Professor LJ Ring resigned as directors and were appointed as alternate directors to Messrs MM Blair and MR Johnston respectively; and
- Mr N Abrams and Mrs TA Chiappini-Young were appointed as alternate directors to Messrs SB Cohen and LJ Chiappini respectively.

## Board charter

The board operates in terms of a formal charter, the purpose of which is to regulate how the board conducts business in accordance with sound corporate governance principles. The objectives of the charter are to ensure that all board members acting on the company's behalf are aware of their duties and responsibilities and the legislation and regulations affecting their conduct and to ensure sound corporate governance principles are applied in all their dealings in respect of and on behalf of the company. The charter sets out the specific responsibilities to be discharged by the board members collectively and individually and was reviewed and updated at the special corporate governance board meeting in March 2011. The full charter can be found on the group's website [www.mrpricegroup.com](http://www.mrpricegroup.com).

## Board appointments

The intention is to maintain a vibrant board that constructively challenges management's strategies and evaluates performance against established benchmarks. Balance is maintained between executive and non-executive directors with the majority of the board members being non-executives, most of whom are independent. It is an objective for approximately half the board to have fashion-value retail experience to ensure that the key risks of inappropriate retail and fashion strategies are managed on an ongoing basis.

Executive directors are ideally 'home-grown' in that they have spent many years with the group and are well-versed in the group's philosophies, strategies, operating practices and culture.

Executive board appointments are made when a senior executive has, through his/her performance, demonstrated leadership potential. The appointment recognises both proven performance and future potential. Exposure to the board deliberations prepares executive directors for future leadership and allows non-executive board members to better evaluate the executive's performance and leadership qualities.

Non-executive directors are appointed based on the contribution they can make to the improved performance of the group. Experience is sought across various disciplines so that a balanced view can be formed. Financial skills are considered vital given the needs of the audit and compliance committee and the increasing complexity of financial reporting. Other important skills are legal, economic and banking. Some retail skills among non-executives are regarded as vital and the board considers it essential that the chairman should come from a fashion-value retail background.

The remuneration and nominations committee continuously evaluates the board composition taking into account the:

- overall size;
- balance of executive to non-executive and independent to non-independent directors;
- gender and racial demographics;
- depth of retail skill;
- mix of other skills; and
- age of existing directors.

In the event that new appointments are sought, the committee identifies and evaluates potential candidates for board approval.

The board believes that its current succession plan allows for the gradual retirement of older board members while providing that, through careful skill selection and mentoring, the continuity of a vibrant and knowledgeable board will be assured.

## Ongoing training and development

There is an appropriate induction and mentoring programme for new directors and the board is committed to an ongoing training programme to brief directors on changes in the legal, commercial and socio-economic environments. The board is supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties, seeks to ensure such information remains relevant and enables it to assess the company's quantitative performance and considers other qualitative performance issues.



Non-executive directors are made aware of any relevant developments in group affairs and attend strategy and risk management presentations by the trading divisions and support centres. To fulfil their responsibilities, directors have full and unrestricted access to company information and can seek independent professional advice at the company's cost. All directors have access to the advice and services of the group secretary.

### **Independence and rotation**

An evaluation in terms of the independence criteria set out in King III, was conducted. In addition, a more robust evaluation was performed for those directors in office for more than nine years and to satisfy the various criteria set out in the Companies Act. The following non-executive directors were classified as being independent:

- Mr MR Johnston;
- Mrs RM Motanyane;
- Mr NG Payne;
- Mr MJD Ruck;
- Mrs SEN Sebotsa;
- Mr WJ Swain; and
- Mr M Tembe.

It was agreed that the following directors should not be classified as independent:

- The honorary chairmen, Messrs SB Cohen and LJ Chiappini, on account of their material holdings of Mr Price Group Limited B ordinary shares; and
- Mr K Getz who acts as a professional advisor to the company.

Mr MR Johnston, as the lead independent director, regularly engages with directors and senior executive management on corporate governance issues and other matters on which management may require guidance. In addition, a separate meeting of directors to specifically address corporate governance issues is held annually, under his chairmanship.

The honorary chairmen operate with employment contracts. No directors have employment contracts in excess of three years. Non-executive directors retire by rotation every three years, at which time they may be considered for re-election at the annual general meeting. The names of the directors, accompanied by brief biographical details, are provided on pages 122 and 123.

Directors must disclose their company shareholdings, other directorships and information regarding any potential conflict of interest. Non-executive directors cannot partake in the group's share incentive schemes. Directors must be recused from discussion on any matters in which they may have a conflict of interest. Before dealing in company shares, executive directors are obliged to obtain the

written consent of the chairman or (should the chairman be involved in a transaction) the lead director.

### **Board review and director performance assessment**

The board undertakes a full review and assessment of its activities by its members every second year. Areas for improvement in performance and goals for the succeeding year are established. Performance against these goals is then monitored by a further questionnaire at the conclusion of that year. The most recent full board review was conducted in the financial year ended 2 April 2011. Progress against the "steps to be taken" and "goals set", will be evaluated in time for the special corporate governance meeting of the board in March 2012, with further action being identified.

Given the change in roles attributable to the board restructuring, a limited performance evaluation by the remuneration and nominations committee was conducted in respect of the honorary chairmen, Mr AE McArthur (in his role as CEO until September 2010) and Mr SI Bird, as CEO from September 2010 until the end of the financial year. Furthermore, a peer review of the board was conducted, to assist directors improve their performance as evaluated by their peers. This will be further refined ahead of the next review in the third quarter of 2011.

### **Board meetings**

The board meets at least four times annually to conduct its regular business and is responsible for the group's overall strategic direction and control. An annual special corporate governance meeting is held in March to:

- review and approve the board charter;
- review and approve the charters or mandates of the various board committees;
- consider the re-appointment of directors retiring by rotation;
- confirm the board chairman;
- propose the chairman and members of the audit and compliance committee (subject to approval of the membership of this committee by shareholders at The Annual General Meeting);
- confirm the chairman and members of each other committee for the forthcoming financial year;
- define levels of materiality, reserving specific powers to the board and delegating other matters with the necessary written authority to management; and
- review the level of the group's compliance with the provisions of King III.

In addition to these meetings, all board members attend annual risk management and strategy presentations by senior divisional and group executives. In approving the group's strategies, the board ensures that a thorough analysis of the appropriate risks has been undertaken.

Generally, all directors attend the annual general meeting and are available to answer shareholders' questions.

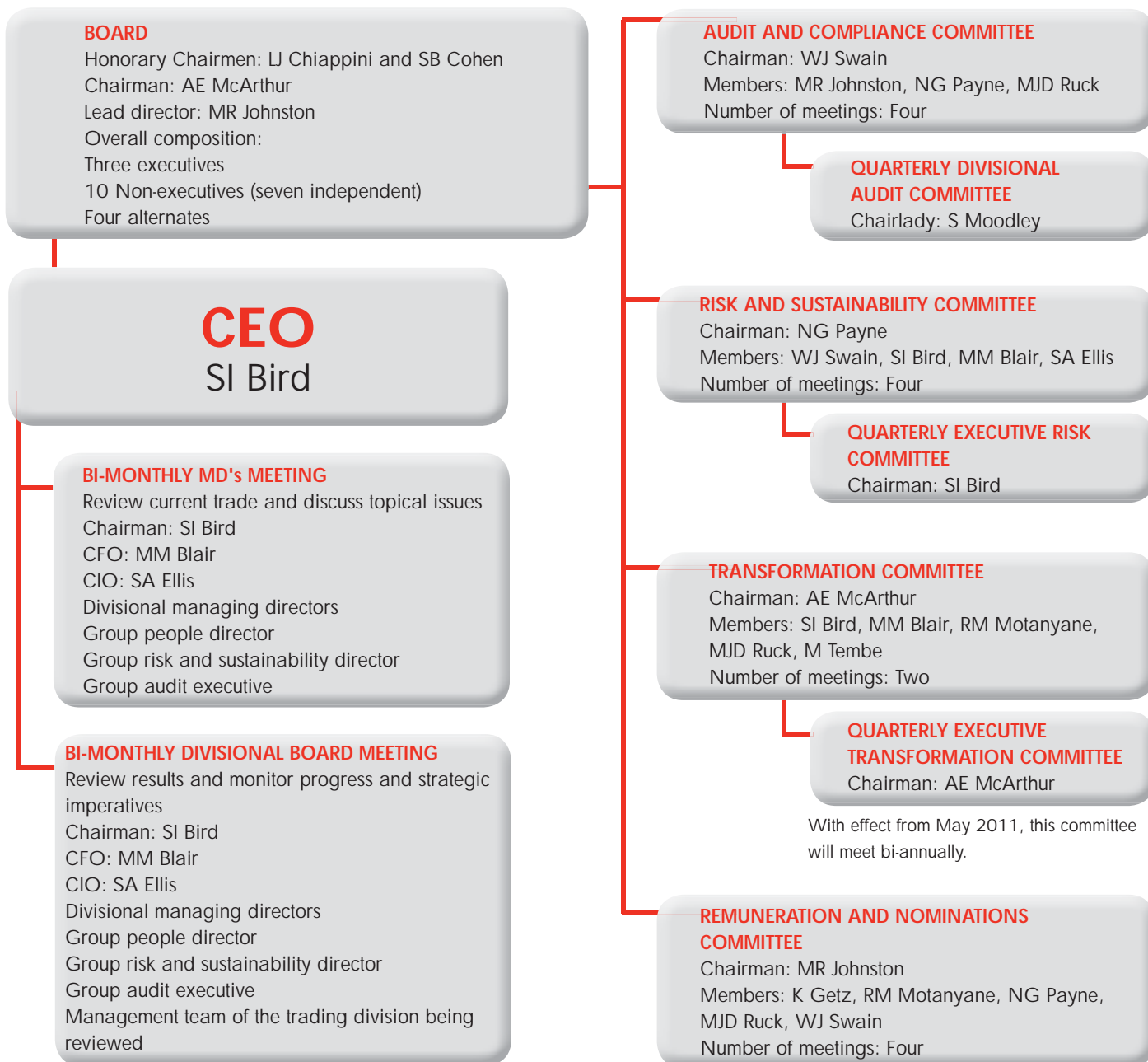
**Group secretary**

In line with the recommendations of King III, the board confirms its opinion that Mr CS Yuill is a competent, suitably qualified and experienced group secretary, able to provide the board with the requisite support for its efficient functioning and discharge of its duties.

**BOARD AND MANAGEMENT COMMITTEES**

To assist the board in discharging its responsibilities for corporate governance, it functions with four main

committees. Furthermore, responsibility for running the business and implementing strategies and policies adopted by the board is devolved to the CEO. The group has established an operating structure of boards and committees that facilitates cross-divisional co-operation, problem sharing and identification of opportunities. Each committee operates in terms of a formal charter or mandate that can be viewed on the group's website [www.mrpricegroup.com](http://www.mrpricegroup.com). The performance of the committees and their members are evaluated separately annually in terms of self-evaluation questionnaires sent to the members for completion. An outline of the board and management committees is as follows:



**BOARD**

Honorary Chairmen: LJ Chiappini and SB Cohen  
 Chairman: AE McArthur  
 Lead director: MR Johnston  
 Overall composition:  
 Three executives  
 10 Non-executives (seven independent)  
 Four alternates

**CEO**  
 SI Bird

**BI-MONTHLY MD's MEETING**

Review current trade and discuss topical issues  
 Chairman: SI Bird  
 CFO: MM Blair  
 CIO: SA Ellis  
 Divisional managing directors  
 Group people director  
 Group risk and sustainability director  
 Group audit executive

**BI-MONTHLY DIVISIONAL BOARD MEETING**

Review results and monitor progress and strategic imperatives  
 Chairman: SI Bird  
 CFO: MM Blair  
 CIO: SA Ellis  
 Divisional managing directors  
 Group people director  
 Group risk and sustainability director  
 Group audit executive  
 Management team of the trading division being reviewed

**AUDIT AND COMPLIANCE COMMITTEE**

Chairman: WJ Swain  
 Members: MR Johnston, NG Payne, MJD Ruck  
 Number of meetings: Four

**QUARTERLY DIVISIONAL  
 AUDIT COMMITTEE**

Chairlady: S Moodley

**RISK AND SUSTAINABILITY COMMITTEE**

Chairman: NG Payne  
 Members: WJ Swain, SI Bird, MM Blair, SA Ellis  
 Number of meetings: Four

**QUARTERLY EXECUTIVE  
 RISK COMMITTEE**

Chairman: SI Bird

**TRANSFORMATION COMMITTEE**

Chairman: AE McArthur  
 Members: SI Bird, MM Blair, RM Motanyane, MJD Ruck, M Tembe  
 Number of meetings: Two

**QUARTERLY EXECUTIVE  
 TRANSFORMATION COMMITTEE**

Chairman: AE McArthur

With effect from May 2011, this committee will meet bi-annually.

**REMUNERATION AND NOMINATIONS COMMITTEE**

Chairman: MR Johnston  
 Members: K Getz, RM Motanyane, NG Payne, MJD Ruck, WJ Swain  
 Number of meetings: Four

Secretarial, taxation and investor relations functions are handled at group level and group finance provides support to the trading divisions.

The board believes that, in respect of the business specifically reserved for its decision, it has satisfactorily discharged its duties and responsibilities during the year under review.

## Attendance of directors at board and committee meetings

Director	Status	Board	Corporate governance	Audit and compliance committee	Risk and sustainability committee	Remuneration and nominations committee	Transformation committee
N Abrams #	Alternate non-executive	1/2	0/1				
SI Bird	Executive	4/4	1/1		4/4		2/2
MM Blair	Executive	4/4	1/1		4/4		2/2
LJ Chiappini	Non-executive	3/4	1/1				
TA Chiappini-Young #	Alternate non-executive	2/2	0/1				
SB Cohen	Non-executive	4/4	1/1				
SA Ellis *	Alternate executive	4/4	1/1		4/4		
K Getz	Non-executive	4/4	1/1			4/4	
MR Johnston	Independent non-executive	4/4	1/1	4/4		4/4	
AE McArthur	Executive	4/4	1/1				2/2
RM Motanyane	Independent non-executive	2/4	1/1			2/4	0/2
NG Payne	Independent non-executive	4/4	1/1	4/4	4/4	4/4	
LJ Ring *	Alternate non-executive	2/4	0/1				
MJD Ruck	Independent non-executive	3/4	1/1	4/4		4/4	2/2
SEN Sebotsa	Independent non-executive	2/4	0/1				
WJ Swain	Independent non-executive	4/4	1/1	4/4	4/4	4/4	
M Tembe	Independent non-executive	4/4	1/1				2/2
S van Niekerk *	Executive	2/2					
C S Yuill *	Executive	2/2					

# appointed alternate director in August 2010

\* retired as director in August 2010

\* resigned as director and appointed alternate director in August 2010



## FINANCIAL REPORTING

The directors are responsible for preparing the financial statements and other information contained in this annual integrated report which, in their opinion, fairly presents the state of affairs and results of the group's operations. The annual financial statements have been prepared in accordance with International Financial Reporting Standards including IAS 34 Interim Financial Reporting and are based on appropriate accounting policies consistently applied and supported by reasonable and appropriate judgments and estimates. The board accepts its duty to present a balanced and understandable assessment of the company's position in reporting to shareholders. The group's external auditor is responsible for reporting on whether the annual financial statements are fairly presented.

Having due regard to the group's current financial position and resources, together with its forecast results, cash flows and financial position in the coming year, the directors and the external auditor confirm that the group is a going concern.

## BUSINESS CODE OF CONDUCT

Directors and associates are required to maintain the highest ethical standards. A code of conduct has been issued to every associate of the company and its subsidiaries and its provisions are annually reinforced under the guidance of a senior officer. During the year all senior associates of the group were required to submit a declaration testifying to their compliance with various aspects of the code. The board believes that ethical standards embodied in the code are effectively observed within the business. Appropriate disciplinary action is applied where necessary in the event of any breach. The code, revised to embody current best practice and governance principles, was approved at the special corporate governance meeting in March 2011. A further code, setting standards and practices to which the group expects its suppliers to adhere, is distributed to new suppliers.

Care is taken in the appointment and promotion process and in the delegation of discretionary authority to assess the integrity of associates.

The code of conduct is located on the group's website [www.mrpricegroup.com](http://www.mrpricegroup.com).

## CLOSED PERIODS

The group operates a closed period policy in line with the JSE Listings Requirements:

- Between the end of its interim and annual financial periods and the publication of the financial results applicable to those periods. All directors and senior associates involved in compiling the trading results and forecasts or reviewing such financial information are considered to be in a closed period from the date of dissemination of the aforementioned information to the board immediately prior to the end of the interim and annual financial periods. This is usually about the 15th of each month;
- Between the end of the third quarter, including the Christmas trading period, and the publication of a trading update pertaining to that period usually in the second week in January; and
- During any period when trading under a cautionary announcement.

During these periods directors, officers and other selected associates are prohibited from dealing in the company's shares. Regard is also had to the JSE Listings Requirements in respect of the dealings of directors in the company's shares. Associates who may have access to confidential or price-sensitive information are cautioned against the possibility of insider trading.

## SPONSOR

Rand Merchant Bank has been appointed as the company's sponsor and, among other functions, advises the board on compliance with the JSE Listings Requirements.

