



# King III Assessment

for the year ended 31 December 2016

HomeChoice International PLC

**HiL** PLC

# King III Assessment

Compliance of HomeChoice International Limited PLC (the company) and its subsidiaries (collectively, the group) with the King Report on Corporate Governance for South Africa, 2009 (the Code):

Principle	Description	Applied	Compliance status
<b>Chapter 1: Ethical leadership and corporate citizenship</b>			
1.1	The board should provide effective leadership based on an ethical foundation.	Applied	The board of directors of the company (the board) leads the group in accordance with principles based on transparency, accountability, integrity and ethical leadership. These principles are incorporated in an approved board charter and demonstrate a sound framework for effective leadership. The group operates within a board-approved code of ethics which supports a commitment to fair dealing, honesty and integrity in the conduct of its business.
1.2	The board should ensure that the company is and is seen to be a responsible corporate citizen.	Applied	
1.3	The board should ensure that the company's ethics are managed effectively.	Applied	<p>The measurement of the adherence of ethical standards is primarily on the basis of facilitating the reporting of non-compliance and is enabled by the group's anonymous tip-off facility and the requirement of employees (as per the code of ethics and terms of employment) to disclose any known contraventions.</p> <p>Non-financial performance, risks and the impact of operations are considered by the board at its meetings. The social and ethics committee is furthermore mandated to deal with sustainability matters.</p> <p>The board ensures that collaborative efforts with stakeholders are embarked upon to promote ethical conduct and good corporate citizenship.</p>
<b>Chapter 2: Board and directors</b>			
2.1	The board should act as the focal point for and custodian of corporate governance.	Applied	The board operates in accordance with a charter that specifically deals with the roles, responsibilities and accountabilities of the board. Through its meetings and interaction with management, the board ensures that governance principles are enforced.
2.2	The board should appreciate that strategy, risk, performance and sustainability are inseparable.	Applied	The board is ultimately accountable for the performance and affairs of the group, appreciating that strategy, risk, performance and sustainability are inseparable. The board and its committees monitor a broad range of financial, sustainability, risk and compliance indicators.
2.3	The board should provide effective leadership based on an ethical foundation.	Refer to 1.1	
2.4	The board should ensure that the company is and is seen to be a responsible corporate citizen.	Refer to 1.2	
2.5	The board should ensure that the company's ethics are managed effectively.	Refer to 1.3	
2.6	The board should ensure that the company has an effective and independent audit committee.	Refer to 3.1 – 3.10	
2.7	The board should be responsible for the governance of risk.	Refer to 4.1 – 4.10	

Principle	Description	Applied	Compliance status
<b>Chapter 2: Board and directors – continued</b>			
2.8	The board should be responsible for information technology (IT) governance.	Refer to 5.1 – 5.7	
2.9	The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards.	Refer to 6.1 – 6.4	
2.10	The board should ensure that there is an effective risk-based internal audit.	Refer to 7.1 – 7.5	
2.11	The board should appreciate that stakeholders' perceptions affect the company's reputation.	Refer to 8.1 – 8.6	
2.12	The board should ensure the integrity of the company's integrated report.	Refer to 9.1 – 9.3	
2.13	The board should report on the effectiveness of the company's system of internal controls.	Refer to 7.1 – 7.5 and 9.1 – 9.3	
2.14	The board and its directors should act in the best interests of the company.	Applied	Directors are appointed in terms of the company's memorandum and articles of association and act according to their fundamental duties. Established policies address the declaration of any potential conflict of interest, dealing in the company's securities and the ability to obtain independent advice, at company cost, in respect of directors' duties and liabilities.
2.15	The board should consider business rescue proceedings or other turnaround mechanisms as soon as the company is financially distressed as defined in the Act.	Applied	The board has not had to consider business rescue proceedings or turnaround mechanisms because the group remains in a strong financial position. The board, however, regularly monitors and considers the financial position and going concern status of the group and would consider business rescue proceedings or other turnaround mechanisms should the group become financially distressed.
2.16	The board should elect a chairman of the board who is an independent non-executive director. The CEO of the company should not also fulfil the role of chairman of the board.	Applied	Stanley Portelli, an independent non-executive director, is the chairperson of the board. Gregoire Lartigue, an executive director, is the CEO of the group. The roles and functions of the chairperson and the CEO are separate and clearly defined.
2.17	The board should appoint the chief executive officer and establish a framework for the delegation of authority.	Applied	The board is responsible for the appointment and evaluation of the CEO. The collective responsibilities of management vest in the CEO and, as such, the CEO bears ultimate responsibility for all management functions. The board has delegated to the CEO and other divisional directors the authority to run the day-to-day business of the group subject to an approval framework established by the board.
2.18	The board should comprise a balance of power, with a majority of non-executive directors. The majority of non-executive directors should be independent.	Applied	There are currently four independent non-executive directors, two non-executive directors and three executive directors on the board. In assessing the status of directors, the principles of the Code and the JSE Listings Requirements are considered.

# King III Assessment (continued)

Principle	Description	Applied	Compliance status
<b>Chapter 2: Board and directors – continued</b>			
2.19	Directors should be appointed through a formal process.	Applied	There is a formal process of identifying suitable candidates, including the nomination and evaluation process for such candidates. Non-executive directors are selected for their broader knowledge and experience and are expected to contribute effectively to decision-making and the formulation of policy and strategy. Brief résumés of directors standing for re-election are presented with the AGM agenda to assist shareholders in the election process.
2.20	The induction of and ongoing training and development of directors should be conducted through formal processes.	Applied	A formal induction programme is available to new directors. All directors have access to key management for information on the group's operations. Training, at company expense, is available to directors should they request it.
2.21	The board should be assisted by a competent, suitably qualified and experienced company secretary.	Applied	The board selects and appoints the company secretary and recognises the important role to be played by the company secretary in entrenching sound corporate governance. The company secretary, George Said, has been in private practice for over 15 years and is a senior partner in a legal practice consulting in maritime, civil, commercial and intellectual property law.
2.22	The evaluation of the board, its committees and the individual directors should be performed every year.	Applied	An annual evaluation is conducted on the effectiveness of the board, its committees and the contribution of individual directors.
2.23	The board should delegate certain functions to well-structured committees but without abdicating its own responsibilities.	Applied	<p>The board committees assist the board in executing its duties, powers and authorities. The required authority is delegated through formally approved charters. Committee chairpersons report back to the board at each board meeting.</p> <p>The board has established the following committees:</p> <ul style="list-style-type: none"> <li>• audit and risk committee; and</li> <li>• remuneration and nominations committee.</li> </ul> <p><b>South Africa and pan-African committees</b> Governance oversight is managed through a board and committee structure for the in-country operations. Committees relevant are: audit and risk (South Africa and Mauritius), credit risk (South Africa and Mauritius), remuneration (South Africa) and social and ethics (South Africa).</p>
2.24	A governance framework should be agreed between the Group and its subsidiary boards.	Applied	Subsidiaries operate with a separate board of directors but the company's board and its committees oversee all significant aspects of subsidiaries.
2.25	Companies should remunerate directors and executives fairly and responsibly.	Applied	The remuneration and nominations committee ensures that the company remunerates executive directors, non-executive directors and senior executives fairly and responsibly. The non-executive directors receive fees for their services on the board and participation in the committees of the board. These fees recognise the responsibilities of non-executives to provide their expertise throughout the year on an ongoing basis and a per meeting fee has not been adopted. Non-executive directors do not receive any payments linked to organisational performance, nor are they entitled to participate in the long-term share option incentive scheme.
2.26	Companies should disclose the remuneration of each individual director and prescribed officer.	Applied	Full disclosure is made in the group's annual financial statements and integrated report.
2.27	Shareholders should approve the company's remuneration policy.	Applied	The remuneration policy is put to a non-binding advisory vote at the general meeting of shareholders once every year.

Principle	Description	Applied	Compliance status
<b>Chapter 3: Audit committee</b>			
3.1	The board should ensure that the company has an effective and independent audit committee.	Applied	The group has an effective audit and risk committee comprising three experienced and skilled independent non-executive directors. The responsibilities of the committee include the following:
3.2	Audit committee members should be suitably skilled and experienced independent non-executive directors.	Applied	<ul style="list-style-type: none"> <li>• reviewing significant accounting issues and assessing the fairness of disclosures to shareholders;</li> <li>• overseeing integrated reporting and reviewing the disclosure of sustainability issues in the integrated report;</li> </ul>
3.3	The audit committee should be chaired by an independent non-executive director.	Applied	<ul style="list-style-type: none"> <li>• reviewing and recommending the financial statements and integrated report for approval to the Board;</li> <li>• confirming the nomination and appointment of the external auditors each year, monitoring and reporting on their independence, and approving the terms of engagement, scope and fees paid;</li> </ul>
3.4	The audit committee should oversee integrated reporting.	Applied	<ul style="list-style-type: none"> <li>• overseeing the development, implementation and review of a risk management policy, and plan for a system and process of risk management to recommend for approval to the board;</li> <li>• identifying and reviewing the group's exposure to significant risks and its risk mitigation strategy;</li> </ul>
3.5	The audit committee should ensure that a combined assurance model is applied to provide a co-ordinated approach to all assurance activities.	Applied	<ul style="list-style-type: none"> <li>• providing assurance on the adequacy and effectiveness of the group's systems of internal financial and operational control, and compliance with laws and procedures;</li> <li>• monitoring and supervising the effective functioning and performance of internal audit, ensuring that it operates independently of management and approving the annual audit plan;</li> </ul>
3.6	The audit committee should satisfy itself of the expertise, resources and experience of the company's finance function.	Applied	<ul style="list-style-type: none"> <li>• considering the appropriateness of the expertise and experience of the finance director and finance function; and</li> <li>• providing effective communication between directors, management and external auditors.</li> </ul>
3.7	The audit committee should be responsible for overseeing of internal audit.	Applied	
3.8	The audit committee should be an integral component of the risk management process.	Applied	
3.9	The audit committee is responsible for recommending the appointment of the external auditor.	Applied	The chairman of the committee reports to the board after each committee meeting and also attends the annual general meeting of shareholders to answer any questions that may arise concerning the activities of the committee.
3.10	The audit committee should report to the board and shareholders on how it has discharged its duties.	Applied	

# King III Assessment (continued)

Principle	Description	Applied	Compliance status
<b>Chapter 4: The governance of risk</b>			
4.1	The board should be responsible for the governance of risk.	Applied	<p>The group's risk management strategy aims to manage all categories of risks through a proactive approach of identifying, assessing, mitigating, monitoring, evaluating and reporting on risks to minimise the group's risk exposure while ensuring sustainable business growth.</p> <p>The board is accountable for the process of risk management, establishing appropriate risk and control policies, and communicating these throughout the group. The board is also responsible for the identification of sustainability issues, and regularly reviews and discusses risks that might impact the group's ability to achieve its sustainability objectives. Management is responsible for designing, implementing and monitoring the system and process of risk management, and integrating it into the day-to-day activities of the group.</p> <p>A system of internal controls has been implemented and is continually reviewed. The group also has a comprehensive reporting system, monitored and reviewed monthly by management. The system facilitates budgetary control, provides reasonable assurance as to the accuracy of financial statements and safeguards the group's assets. Significant risks are identified, evaluated and managed on an ongoing basis. Senior executives and management also undertake an enterprise-wide risk assessment process that ensures all material risks are identified, evaluated and mitigated wherever possible, and compliance with laws and regulations assessed. This process is undertaken within each division of the group's trading subsidiary companies and serves to instil risk awareness and accountability throughout the group, focusing on key risk areas such as marketing, merchandise, credit, logistics, operations, information technology, human resources and financial controls. Risks are documented in a risk register, with their mitigating controls, and are rated in terms of likelihood of occurrence and impact. The results are presented to the audit and risk committee.</p> <p>Risk champions monitor operational processes and report any risk incidents as they occur on a continuous basis. The causes of risk incidents are analysed, and both corrective and preventative measures are taken to manage the risks. Revision sessions are held where risk champions are required to review their progress on action plans stemming from the annual risk assessment process and revise the risk registers where deemed appropriate, taking any emerging risks into consideration.</p> <p>The key risks and mitigation strategies that could impact on the group achieving its sustainability objectives are disclosed in the group's integrated report.</p>
4.2	The board should determine the levels of risk tolerance.	Applied	
4.3	The risk committee or audit committee should assist the board in carrying out its risk responsibilities.	Applied	
4.4	The board should delegate to management the responsibility to design, implement and monitor the risk management plan.	Applied	
4.5	The board should ensure that risk assessments are performed on a continual basis.	Applied	
4.6	The board should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks.	Applied	
4.7	The board should ensure that management considers and implements appropriate risk responses.	Applied	
4.8	The board should ensure continual risk monitoring by management.	Applied	
4.9	The board should receive assurance regarding the effectiveness of the risk management process.	Applied	
4.10	The board should ensure that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders.	Applied	

Principle	Description	Applied	Compliance status
<b>Chapter 5: The governance of information technology</b>			
5.1	The board should be responsible for information technology (IT) governance.	Applied	The board is responsible for information technology (IT) governance and has delegated the regulation of IT governance issues and policies to the audit and risk committee.
5.2	IT should be aligned with the performance and sustainability objectives of the company.	Applied	IT risk governance falls within risk management of the company, which is reviewed and recommended to the board by the audit and risk committee and is implemented and continuously monitored by management.
5.3	The board should delegate to management the responsibility for the implementation of an IT governance framework.	Applied	The group is data rich and reliant on IT. While IT risks and controls have always been considered as part of the group's enterprise-wide risk management processes, the board has established an IT governance charter and the IT director assumes the responsibilities of the chief information officer.
5.4	The board should monitor and evaluate significant IT investments and expenditure.	Applied	The group has established an information security sub-committee to review and enhance controls over the security and processing of data in the group, while any changes to the IT production environment are formally monitored by a change control committee.
5.5	IT should form an integral part of the company's risk management.	Applied	
5.6	The board should ensure that information assets are managed effectively.	Applied	
5.7	A risk committee and audit committee should assist the board in carrying out its IT responsibilities.	Applied	
<b>Chapter 6: Compliance with laws, rules, codes and standards</b>			
6.1	The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards.	Applied	The board charter confirms that the board is responsible for ensuring that the group complies with all relevant laws, regulations and codes. The board has delegated the responsibility for ensuring that the relevant compliance processes are in place to the audit and risk committee.
6.2	The board and each individual director should have a working understanding of the effect of the applicable laws, rules, codes and standards on the company and its business.	Applied	The board is updated of relevant laws, rules, codes and standards through reports presented to the audit and risk committee.  The group maintains its focus on compliance with legislation that impacts on the group. Project teams are established to review new legislation and identify any compliance requirements. The group operates within an established compliance framework which includes an annual assessment.
6.3	Compliance risk should form an integral part of the company's risk management process.	Applied	
6.4	The board should delegate to management the implementation of an effective compliance framework and processes.	Applied	

# King III Assessment (continued)

Principle	Description	Applied	Compliance status
<b>Chapter 7: Internal audit</b>			
7.1	The board should ensure that there is an effective risk-based internal audit.	Applied	The group has established an internal audit function to provide assurance on the adequacy and effectiveness of internal control and risk management practices, and to assist management by making recommendations for improvement. The audit and risk committee also utilises the services of professional audit firms to assist in evaluating internal control and business risks as and when required.  The purpose, authority and responsibilities of the internal audit function are defined in a board-approved charter. The audit and risk committee is responsible for overseeing internal audit. The internal audit manager, as head of internal audit, reports functionally to the chairman of the audit and risk committee. The internal audit manager attends all audit and risk committee meetings. Internal audit is independent and objective, and strategically positioned to achieve its objectives.  The internal audit function performs an annual review of the effectiveness of the group's internal control environment, including its internal financial controls, IT controls as they pertain to financial reporting and the effectiveness of its risk management process for the period under review.
7.2	Internal audit should follow a risk-based approach to its plan.	Applied	
7.3	Internal audit should provide a written assessment of the effectiveness of the company's system of internal control and risk management.	Applied	
7.4	The audit committee should be responsible for overseeing internal audit.	Applied	
7.5	Internal audit should be strategically positioned to achieve its objectives.	Applied	
<b>Chapter 8: Governing stakeholder relationships</b>			
8.1	The board should appreciate that stakeholders' perceptions affect a company's reputation.	Applied	The board appreciates that stakeholders' perceptions affect the group's reputation. Stakeholder engagement is critical to the group's economic, social and environmental sustainability. Engagement aimed at establishing and maintaining mutually beneficial relationships not only limits risks to the business but creates opportunities to enhance performance, ensuring longer-term sustainability.  The primary stakeholders that are most likely to influence the sustainability of the group are customers, staff and shareholders, with secondary stakeholders including suppliers, regulatory bodies and the communities served by the business.  The board ensures that appropriate processes are in place for engagement with various stakeholders. The group's reputation and its linkage with stakeholder relationships is a regular board agenda item. The interaction with stakeholders is also managed by the social and ethics committee.  Complete, timely and relevant information is provided by the company to stakeholders, having regard to legal and strategic considerations. Shareholders are encouraged to attend the company's annual general meeting and are given information timeously.  There is no formal external dispute resolution process in place because disputes are dealt with on a case-by-case basis. Disputes with employees are subject to a formal process.
8.2	The board should delegate to management to proactively deal with stakeholder relationships.	Applied	
8.3	The board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interests of the company.	Applied	
8.4	Companies should ensure the equitable treatment of shareholders.	Applied	
8.5	Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence.	Applied	
8.6	The board should ensure disputes are resolved as effectively, efficiently and expeditiously as possible.	Applied	

Principle	Description	Applied	Compliance status
<b>Chapter 9: Integrated reporting and disclosure</b>			
9.1	The board should ensure the integrity of the company's integrated report.	Applied	The integrated report is reviewed by the audit and risk committee and the board prior to it being published to ensure its integrity. Furthermore, the external auditors review the integrated report in order to ensure that the information published is consistent with the outcome of their audit of the financial statements.
9.2	Sustainability reporting and disclosure should be integrated with the company's financial reporting.	Applied	Sustainability reporting and disclosure is integrated with the group's financial reporting.
9.3	Sustainability reporting and disclosure should be independently assured.	<b>Not applied</b>	The financial statements are independently assured but at this stage, the audit and risk committee does not believe that independent assurance on sustainability will provide significant benefit to stakeholders.

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