

# GOVERNANCE

This report is the full governance report. A summarised version is included in the group's printed section of the integrated annual report on pages 90 to 95.

## SECTION 1: CORPORATE GOVERNANCE

Libstar's values are aimed at building and maintaining a culture that promotes professional conduct, commitment, and open and honest communication. The board endorses the King IV Report on Governance for South Africa 2016 (King IV) and recognises the need to conduct its business with integrity and in accordance with generally accepted corporate practices.

### OUR VALUES AND BEHAVIOURS

**Integrity** We value our team collaboration based on transparency, trust and integrity.

**Commitment** We are consumer and shopper-led, focusing on our customers to grow brands and categories.

**Collaborative teamwork** We are one company with common goals.

**Respect** Respecting, valuing and treating people with dignity.

**Passion** A passionate, committed, enthusiastic winning team that celebrates success.

**Innovative sustainability** Innovative and sustainable value creation across our value chain.

Following the conversion of the company from a private to a public company listed on the JSE Limited (JSE), the group continues to proactively take steps to ensure full compliance with the JSE Listings Requirements and the principles of King IV.

### KEY FOCUS AREAS

Focus areas during the year for the board included:

- Preparation of the group for listing on the JSE, including corporate and governance structures and procedures;
- Focusing on talent and development;
- Enhancing the capabilities and integrity of reporting systems; and
- Establishing a corporate identity and enhancing the Libstar brand.

### GOVERNANCE STRUCTURE

The board has five committees in place.



### THE BOARD

Libstar has had a board in place since 2005. To align with best practice and King IV compliance, the board was restructured in March 2018 to comprise two executive directors, three independent non-executive directors and two non-executive directors. The board is considering increasing its size to further strengthen the skills sets.

The board is responsible for ensuring that the company complies with all its statutory obligations specified in the memorandum of incorporation of the company, the SA Companies Act, the JSE Listings Requirements and other regulatory requirements. An effective compliance framework is in place, with the board ensuring the integrity of its financial reporting and risk management, together with timely and transparent disclosure to shareholders.

The board has a framework in place for the delegation of authority to management. It remains cognisant that delegating authority to committees or management does not in any way impact or dissipate the discharge by the board and its members of its duties and responsibilities.

The board also ensures that the positions of the CEO and board chairman are separate, with a clearly defined division of responsibilities in both offices to ensure a balance of authority and power. The chairman does not interfere in the day-to-day running of the business, but has access to routine group information, including internal reports, to enable her to remain up to date with the operations of the group and industry.

The board has a minimum of four scheduled meetings per financial year, excluding any ad hoc meetings held to consider special business.

The board has a board charter in place, regulating, amongst other things, the role and responsibilities of the chairman, the lead independent director and the board as a whole.

Directors are appointed by the board in a formal and transparent manner.

### Independence of directors

Three of the non-executive directors, including the chairman, are classified as independent in terms of King IV and the JSE Listings Requirements. Wahid Hamid and Sandeep Khanna represent APEF Pacific Mauritius on the board and are not considered to be independent, as they manage APEF Pacific Mauritius, a significant investor in the group. However, these directors continue to exercise independent judgement at board level.

### Board practices

The board takes overall responsibility for directing the company and the achievement of its strategic objectives, vision and mission. The primary responsibilities of the board include:

- Approving the strategic direction of the group;
- Approving and reviewing budgets, business plans and policies;
- The management of ethics;
- The governance of risk;
- An effective audit and risk committee;
- Retaining full and effective control of the company;
- Monitoring the activities of the executive management; and
- Ensuring that Libstar complies with applicable laws, regulations and codes of business practice.

There is a clear division of responsibilities at board level that creates balance of power and authority to prevent any individual having unfettered powers of decision-making. The executive directors and executive management team are responsible for the day-to-day management of the company's operations. In line with the group's

decentralised business model, the board and the executive management team are supported by senior management teams from each of the business units. Members of the board are appointed by the shareholders.

### Board members

#### WENDY LUHABE CHAIRMAN – INDEPENDENT NON-EXECUTIVE DIRECTOR

##### **BCom (University of Lesotho) Management Advancement Programme (Wits Business School)**

**Date of appointment: March 2018**

Wendy has been a serial social entrepreneur for 25 years, with a focus on the economic empowerment of women.

She has served on boards of diverse industries since 1992, including chairing Vodacom and the Industrial Development Corporation. She pioneered broad-based economic empowerment (B-BBEE) of women in 1993 through the creation of WIPHOLD before B-BBEE became legislation. WIPHOLD is an investment portfolio company that enabled thousands of women to become investors in South Africa's economy for the first time. In 2003, she established the Women Private Equity Fund to provide growth capital to female-owned enterprises. She is currently involved in mobilising women to participate in infrastructure opportunities through the establishment of Women in Infrastructure Development and Energy (WINDE).

Wendy is a BCom graduate and has attended many post-graduate leadership programmes over the years.

She currently serves on the Social Justice Initiative and Pepkor boards. Her previous board experience includes Telkom, Tiger Brands, JSE, BMW, International Institute for Management Development and World Rugby.

#### JP LANDMAN – LEAD INDEPENDENT NON-EXECUTIVE DIRECTOR

##### **BA LLB (University of Stellenbosch)**

##### **MPhil in Future Studies (cum laude) (University of Stellenbosch)**

##### **Programme on Macroeconomic Policy Management (Harvard)**

##### **Continuing Education on the Economies of the BRICS countries (Oxford University, Continuing Education)**

**Date of appointment: March 2018**

JP is an independent analyst on political-economic trends, focusing on trends in

politics, economics, demographics and social capital. JP previously worked at an investment house operating on the JSE Limited where he was rated the number one analyst in his category. From 2006 to 2009, he served on President Mbeki's economic advisory panel. In 2015, he was appointed as a member of the National Planning Commission. He has board and audit committee experience as a non-executive director of different companies, including the Afrikaanse Taal en Kultuurvereniging (ATKV).

#### SIBONGILE MASINGA – INDEPENDENT NON-EXECUTIVE DIRECTOR

##### **BCom (UNISA)**

##### **US-SA Leadership & Entrepreneurship Programme (Wharton School of Business)**

**Date of appointment: December 2018**

Sibongile is a co-founder and shareholder of Afropulse Group, a women-led investment, corporate advisory and investor relations group. She holds a Bachelor of Commerce Degree and has completed the USA-SA Leadership and Entrepreneurship Programme at the Wharton School of Business. She has valuable industry-related experience as she currently serves on the board of Bidvest Holdings as a non-executive director and a member of the remuneration committee, risk committee and social and ethics committee. She also serves as an independent director on the Finance and Grant Committee of the Merseta (Manufacturing, engineering and related services sector). She was appointed to serve on the Council at Durban University of Technology by the Minister of Higher Education, The Honourable Naledi Pandor and also serves on the audit committee.

#### WAHID HAMID – NON-EXECUTIVE DIRECTOR

##### **Bachelor of Science Elec Eng (California Institute of Technology)**

##### **Honorary PHD in Humane Letters (Occidental College)**

##### **MBA (Wharton School, University of Pennsylvania)**

**Date of appointment: December 2014**

Wahid is a managing partner of the Abraaj Group. He is a member of Abraaj's global investment committee and leads the global operational value creation activities for the firm. Before joining Abraaj, Wahid was senior vice president of Corporate Strategy and Development at PepsiCo, a member of PepsiCo's executive management committee

and a board member of PepsiCo Americas. He was also CFO for PepsiCo Americas Foods, which includes the Frito-Lay and Quaker brands. Before that, he spent 15 years with The Boston Consulting Group (BCG), where his last role was senior partner and managing director in New York. During his tenure at BCG, he led the firm's consumer goods and retail practice across Asia Pacific.

He also serves on the boards of Fan Milk International and KES Power.

#### **SANDEEP KHANNA – NON-EXECUTIVE DIRECTOR**

**Chartered Global Management Accountant  
Associate Member of the Chartered  
Institute of Management Accountants (UK)**

**Date of appointment: June 2014**

Sandeep is a seasoned investor and pioneer of private equity with more than 20 years of experience in Africa. Sandeep has a track record of investing in Africa since 1995 through direct investing, investment committee membership and senior key leadership positions held at two leading emerging markets fund management firms over the investment cycle of several funds. Sandeep is a chartered management accountant in the United Kingdom.

#### **ANDRIES VAN RENSBURG – CHIEF EXECUTIVE OFFICER**

**BEng, MEng (University of Stellenbosch)  
MBL (cum laude) (UNISA)**

**Date of appointment: June 2014**

Andries joined Sasol in 1982 and was soon promoted to operations manager. In 1989, he acted on his passion for food businesses and took up a position with Tiger Brands, where he served as managing director of subsidiaries such as Oceana Fishing, Langeberg Foods and the Tiger Brands Culinary division. He brings a wealth of knowledge in the food sector, as well as management and leadership skills. Andries co-founded Libstar in 2005.

#### **ROBIN SMITH – GROUP FINANCIAL DIRECTOR**

**BCompt and BCompt Honours (UNISA)**

**CA(SA)**

**Date of appointment: October 2014**

Robin is a chartered accountant who left the accounting profession for financial management positions in commerce and industry. Robin was a shareholder and the financial director of the Sherwood Export Group for ten years before joining South African Breweries as financial director of the African operations and later as commercial director for SAB International. Robin was a director of Brait South Africa and a shareholder and director of Metier Investment and Advisory Services Proprietary Limited before co-founding Libstar in 2005. Robin has in-depth experience in the areas of finance, administration, capital raising, mergers and acquisitions and general commercial management.

#### **Board attendance for F2018**

The board was restructured ahead of the group's listing.

	28 March 2018	9 May 2018	15 August 2018	5 December 2018
W Luhabe (chairman)	✓	✓	✓	✓
JP Landman (lead)	✓	✓	✓	✓
A Van Rensburg	✓	✓	✓	✓
R Smith	✓	✓	✓	✓
WS Hamid	✓	✓	–	✓
S Khanna	✓	✓	✓	✓
P Langeni	✓	✓	–	✓
S Masinga – Appointed 12 December 2018	–	–	–	✓*
A Patel – Resigned 12 April 2018	✓	–	–	–
A Mazhar – Resigned 12 April 2018	✓	–	–	–
M Muller – Resigned 12 April 2018	✓	–	–	–
R Nosi (alternate to M Muller) – Resigned 12 April 2018	✓	–	–	–
T Millar (alternate to T Judge) – Resigned 12 April 2018	✓	–	–	–
T Judge – Resigned 12 April 2018	✓	–	–	–

\* Invitee at the 5 December 2018 meeting.

#### **Chairman**

The chairman is Wendy Luhabe. She is an independent non-executive director. The main role of the chairman is to manage and provide leadership to the board. The chairman is accountable to the board and acts as a liaison between the board and management through the CEO.

The chairman's role is to:

- Provide independent advice and counsel to the CEO;
- Ensure that directors are properly informed and that sufficient information is provided to enable the directors to formulate appropriate judgements;
- Develop and set agendas for meetings of the board, in conjunction with the company secretary;
- Chair meetings of the board;
- Recommend an annual schedule of the date, time and location of board and committee meetings;
- Review and sign minutes of board meetings;
- Sit on other committees of the board, where appropriate, and as determined by the board; and
- Call special meetings of the board, where appropriate.

### The lead non-executive director

JP Landman is Libstar's lead non-executive director. His responsibilities are to:

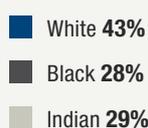
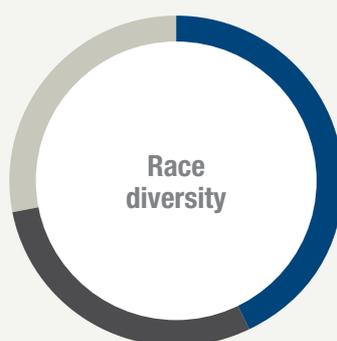
- Lead in the absence of the board chairman;
- Serve as a sounding board for the chairman;
- Act as an intermediary between the chairman and other board members, if necessary;
- Deal with shareholders' concerns where contact through normal channels has failed to resolve concerns, or where such contact is inappropriate;
- Chair discussions and decision-making by the board on matters where the board chairman has a conflict of interest;
- Lead the performance appraisal of the board chairman;
- Lead the board's annual self-assessment;
- Review information before it is provided to the board;
- Approve meeting agendas for the board;
- Assure that there is sufficient time for discussion of all meeting agenda items; and
- Organise and lead the board's evaluation of the CEO.

### Company secretary

Solach Pather is the company secretary and is appropriately empowered to fulfil her duties to assist the board. Although Solach has been fulfilling the role of company secretary for several years, the board formally appointed her by resolution in April 2018. The board confirms that she is a suitably qualified, competent and experienced company secretary.

The company secretary is required to provide the directors, collectively and individually, with guidance on their duties, responsibilities and powers and is also required to ensure that the directors are aware of laws and legislation relevant to, or affecting, the company. She is also responsible to report any failure on the part of the company or a director to comply with the MOI of the company or the South African Companies Act.

The company secretary must certify whether the company has filed required returns and notices in the company's annual financial statements in terms of the South African Companies Act, and whether all returns and



notices appear to be true, correct and up to date. She also has to ensure that a copy of the company's annual financial statements is sent to all relevant stakeholders in accordance with the South African Companies Act. The company secretary carries out the functions in relation to the company's compliance with requirements set out in sections 22 to 34 of the South African Companies Act, and the enhanced accountability and transparency requirements set out in Chapter 3 of the South African Companies Act, to the extent applicable. The company secretary also has to record minutes of all shareholders' meetings, directors' meetings and any committee meetings of the directors in accordance with sections 24(d) and (e) and section 73 of the South African Companies Act.

### Appointment and rotation of directors

No director is appointed for an indefinite period. At the first AGM of the group as a listed entity, all directors will retire from office. At each subsequent AGM, at least one third, or the closest number to a third, of the non-executive directors will retire from office. The non-executive directors who will retire every year will be those who have been in office the longest since their election.

### Gender and race diversity

The group has set itself race and gender targets at board, group and business unit level. As a board, we have set a voluntary target of 30% female representation by the end of F2020. The group currently has two female directors at main board level, which represents 28.6% female representation. All appointments are made on merit, in the context of skills, experience, independence and knowledge which the board as a whole requires to be effective. Due regard is given to diversity in respect of Libstar's transformation initiatives, specifically those of gender and race and an appropriate mix of qualifications, skills and experience across the board.

Our intention is to also ensure race and gender diversity at executive level over time.

## Board committees

### 1. AUDIT AND RISK COMMITTEE

The audit committee comprises three non-executive directors and is chaired by an independent non-executive director.

The audit and risk committee serves in an advisory capacity to the board and assists the directors to discharge their duties relating to the safeguarding of assets, the operation of adequate systems, financial risk management and controls, the review of financial information, and the preparation of annual financial statements and other matters incorporated in the integrated annual report.

The audit and risk committee is responsible for reviewing the financial statements and recommending to the board whether to adopt them. They are also responsible for:

- Taking appropriate steps to ensure that the financial statements are prepared in accordance with IFRS and in the manner required by the South African Companies Act;
- Considering and, where appropriate, making recommendations on internal financial controls;
- Ensuring that the company has established and complies with appropriate financial reporting procedures, dealing with concerns or complaints relating to such procedures, accounting policies, internal audit, the auditing or content of annual financial statements and internal financial controls;
- Reviewing the external audit reports on the annual financial statements;
- Confirming the internal audit plan and ensuring that the risk management procedures are adequate;
- Reviewing the internal audit findings and, where relevant, making recommendations to the board and evaluating the effectiveness of risk management;
- Controlling the governance processes;
- Verifying the independence of the external auditors;
- Approving the audit fees and engagement terms of the external auditors each year, including a review of the appropriate documentation set out in the JSE Listings Requirements to assess the suitability of the external auditors, determining the nature and extent of allowable non-audit services, and approving the contract terms for the provision of non-audit services by the external auditors of the group;

- Considering, on an annual basis, and satisfying itself of the appropriateness of the expertise, experience and performance of the financial director, and reporting to shareholders in the company's integrated annual report that the audit and risk committee has executed this responsibility;
- Reviewing and reporting on the expertise, resources and experience of the company's finance function;
- Monitoring the implementation of the group's risk management policy and plan;
- Recommending the levels of risk tolerance and appetite to the board and monitoring that risks are managed within the acceptable levels;
- Overseeing the integration of the risk management plan in day-to-day activities of the operations; and
- Exchanging information relevant to financial controls and reporting.

The audit and risk committee reports to the shareholders in the integrated annual report of the company.

In terms of the JSE Listings Requirements, the audit and risk committee has satisfied itself that the financial director has the appropriate expertise and experience required for the role.

During the year, the committee was chaired by Phumzile Langeni. The other members are Sandeep Khanna and JP Landman. Sibongile Masinga was appointed to the board from 14 December 2018 and took over the position of chairman for this committee from 31 December 2018 after Phumzile Langeni stepped down in her capacity as chairman of the audit and risk committee and director of Libstar.

The committee has a minimum of two scheduled meetings per financial year.

#### Attendance for F2018

	8 March 2018	27 March 2018	14 August 2018	27 November 2018	4 December 2018
P Langeni (chairman)	✓	✓	✓	✓	✓
JP Landman	✓	✓	✗	✓	✓
S Khanna	✓	✓	✓	✓	✓
S Masinga – Appointed 14 December 2018	–	–	–	–	✓*
A Patel – Resigned 12 April 2018	✓	–	–	–	–
R Nosi – Resigned 12 April 2018	✓	–	–	–	–

\* Invitee at the 5 December 2018 meeting.

### 2. REMUNERATION COMMITTEE



Refer to the remuneration review on pages 76 to 88 of the printed section of the integrated annual report for more information.

The mandate of the remuneration committee is to contribute to the long-term financial and commercial viability of the group by reviewing and maintaining compensation policies and plans, to enable the group to attract and retain employees, managers and executive directors and to maintain an effective board.

The remuneration policy and related implementation report is tabled this year for separate non-binding advisory votes by shareholders at the first annual general meeting of the company as a listed group.

The role of the remuneration committee is to assist the board to consistently apply the remuneration policy throughout the group, that directors and executives are fairly and responsibly remunerated and that the disclosure of director remuneration is accurate, complete and transparent.

The members of the remuneration committee are Wahid Hamid (chairman), Sandeep Khanna and Wendy Luhabe.

The committee has a minimum of two scheduled meetings per financial year.

#### Attendance for F2018

	2 October 2018	8 December 2018
Wahid Hamid (chairman)	✓	✓
Sandeep Khanna	✓	✓
Wendy Luhabe	✓	✓

The CEO, CFO, the human resources executive and external advisors are invited to participate in the meetings.

#### 3. NOMINATION COMMITTEE

The nomination committee comprises three non-executive directors and is chaired by an independent non-executive director.

The mandate of the committee is to contribute to the long-term financial and commercial viability of the company by reviewing and maintaining an appropriate composition to operate effectively.

The role of the committee is to:

- Regularly review the board structure, size and composition and make recommendations to the board regarding any changes that are deemed necessary;
- Appoint directors through a formal process, including identifying suitable members for the board, performing reference and background checks of candidates prior to nomination, and formalising the appointment of directors through an agreement between the company and the director;
- Ensure that the board is comprised of persons from demographics that promote gender and race diversity and that this diversity is reported to shareholders in the integrated annual report of the group;
- Set appropriate annual objectives for the board to achieve gender and race diversity, including the setting of voluntary targets with regard to the number of women and previously disadvantaged persons on the board or involved with senior management of the group, as well as the nature of the roles occupied by such persons;
- Oversee and ensure that the induction and ongoing training and development of directors take place;
- Ensure that a mentorship programme is offered to directors; and
- Implement formal succession plans for the board, the CEO and senior management.

Sandeep Khanna (chairman), Andries van Rensburg and Robin Smith are members of the nomination committee.

No meetings have been held to date as board appointments have been made through the main board.

#### 4. SOCIAL AND ETHICS COMMITTEE

The board has approved terms of reference for the social and ethics committee which regulate the workings and the mandate of the committee.

In addition to performing the duties required in relation to Regulation 43 of the South African Companies Act, the committee assists the board with monitoring and reporting on social, ethical and transformational practices that are consistent with good and responsible corporate citizenship. The committee also reviews the group's performance annually on performance areas relating to corporate social investment, stakeholder relations, broad-based black economic empowerment, labour relations and working conditions, employment equity, consumer relations and ethics, governance and compliance.

Sibongile Masinga (chairman), Wendy Luhabe, Leon Conradie, Terence Millar, Peter Grobler and Solach Pather are the members of the social and ethics committee. Sibongile Masinga was appointed to the board from 14 December 2018 and took over the chairman's position for this committee from 31 December 2018 when Phumzile Langeni stepped down in her capacity as chairman of the social and ethics committee and director of Libstar. Wendy Luhabe was appointed to the committee from 27 March 2019.

The committee has a minimum of two scheduled meetings per financial year.

#### Attendance for F2018

	26 March 2018	14 August 2018	4 December 2018
P Langeni (chairman) Resigned 31 December 2018	-	✓	✓
S Masinga Appointed 14 December 2018 (chairman)	-	-	-
W Luhabe*	-	-	-
A Patel Resigned 12 April 2018	✓	-	-
S Pather Member	✓	✓	✓
T Millar Member	✓	✓	✓
P Grobler Member	✓	✓	-
L Conradie Member	-	-	✓

\* W Luhabe was appointed to the committee from 27 March 2019.

**5. IT STEERING COMMITTEE**

The members of the IT steering committee comprise the IT information officer and other members of the IT department.

The committee is responsible for:

- Implementing an information security strategy;
- Implementing a strategic IT planning process that is integrated with the business strategy development process;
- Sustaining and enhancing the company's strategic objectives;
- Integrating IT plans with business plans;
- Aligning IT operations with business operations;
- Aligning IT activities with environmental and sustainability objectives; and
- Ensuring the group adheres to legislative requirements that apply to IT, business requirements and the long-term strategy and that the group delivers the expected return on IT investments.

As this committee was only recently established, no formal meetings have been held to date.

**6. INVESTMENT AND STRATEGY COMMITTEE**

The investment and strategy committee comprises two non-executive directors, Sandeep Khanna and Wendy Luhabe, and two executive directors, Andries van Rensburg and Robin Smith. It is chaired by Sandeep Khanna, a non-executive director.

The committee assists and advises executive management on opportunities and all aspects of other material transactions not in the ordinary course of business, as well as matters related to these. The committee also approves any recommendations or proposals to be made to the board in relation to such opportunities or transactions.

This committee's meetings have been incorporated as part of the board meeting discussions. In future, these will be separately documented meetings.

**INTERNAL CONTROL SYSTEMS**

We have implemented systems of internal control which are designed to detect and minimise the risk of fraud, potential liability, loss and material misstatement. These systems also provide reasonable, but not absolute, assurance regarding compliance with statutory laws and regulations and the maintenance of proper accounting records. The group makes use of various third-party software systems to manage a range of operational and management systems and identify, amongst other things, health and safety and technical risks in the production facilities of the business units.

The purpose of the systems of internal control is to maintain a sound system of risk management and to sustain an effective internal control environment, ensuring that the financial statements are honest and reliable, as well as to safeguard the group's assets.

We also have certain cost control measures in place, including an independent internal audit function which reports to the audit and risk committee. An internal audit plan is agreed on an annual basis and adopts a risk-based approach to key financial aspects impacting the group.

**CONFLICTS OF INTEREST**

We are committed to the highest standards of ethical, moral and legal business conduct. A conflict of interest policy is in place.

**DEALING IN SECURITIES**

We have a formal policy, established by the board and implemented by the company secretary, prohibiting dealing in securities by directors, officers and other selected employees for a designated period preceding the announcement of its financial results or in any other period considered sensitive.

The closed financial period starts at the interim and year-end period ends and is completed upon publication of results on SENS. The policy on dealing in securities policy is circulated prior to a closed period to remind the affected persons.

**ASSURANCE OF INDEPENDENCE**

Libstar operates a combined assurance framework which coordinates the efforts of management, internal assurance providers and external assurance providers in a manner that ensures collaboration and assists in providing a profile of the risks.

**First line of defence** – management.

**Second line of defence** – external assurance providers – attorneys, customers and external audit.

**Third line of defence** – internal audit.

**Fourth line of defence** – oversight bodies (the board and sub-committees).



**DIRECTORS' FEES****Fees earned in F2018**

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Independent non-executive director and chairman – W Luhabe	<b>841 666</b>
Independent non-executive director and lead independent director – JP Landman	<b>508 333</b>
Independent non-executive director – P Langeni	<b>608 333</b>

No other directors are paid fees, as they either represent executive management or major investors.

**By committee**

Position	Proposed fees for the year ending 31 December 2019 R	Fees paid for the year ended 31 December 2018 R
<b>Board</b>		
Chairman	<b>700 000</b>	<b>700 000</b>
Member	<b>270 000</b>	<b>270 000</b>
<b>Audit and risk committee</b>		
Chairman	<b>260 000</b>	<b>260 000</b>
Member	<b>140 000</b>	<b>140 000</b>
<b>Remuneration committee</b>		
Chairman	<b>250 000</b>	<b>250 000</b>
Member	<b>110 000</b>	<b>110 000</b>
<b>Social and ethics committee</b>		
Chairman	<b>200 000</b>	<b>200 000</b>
Member	<b>100 000</b>	<b>100 000</b>

**KEY FOCUS AREAS FOR 2020**

The board's key focus areas for the coming year are outlined below:

- The group is measured against the Agri BEE sector codes. Due to the onerous targets contained in these sector codes, the company has appointed AQRate as its verification agency for F2019 to ensure an improvement in its rating. Increased emphasis will be placed on the elements of management control and employment equity, skills development and preferential procurement.
- Enhancement of information technology processes, including the implementation of new systems focused on ensuring effective group-wide reporting and accounting systems.
- Finalisation of policies, including socio-economic development responsibility, shareholder relationship policy and other compliance policies.
- Review of the board diversity policy to ensure that objectives and targets are on track.
- Working with management on:
  - Consolidation and integration of business units;
  - The effective implementation of the group's strategy;
  - Enhancement of the corporate brand positioning;
  - Continuing to build the entrepreneurial/ownership culture;
  - Creating a strong and cohesive management team that can work together to drive growth;
  - Enhancing investor and media relations;
  - Improving manufacturing efficiencies and yields;
  - Maintaining accreditations from local and international bodies;
  - Developing of leadership and talent; and
  - Entrenching an employee and organisational value creation process.



## SECTION 2: APPLICATION OF KING IV REPORT ON GOVERNANCE FOR SOUTH AFRICA 2016 (KING IV)

Libstar has analysed its compliance with King IV's principles and recommended practices. Since listing, the board has focused on ensuring that the corporate documents of Libstar are aligned to achieve both technical and practical compliance with the outcomes of King IV, as well as to facilitate the implementation thereof.

The table was prepared in terms of the JSE Listings Requirements and sets out the application of the 17 corporate governance principles by Libstar, as recommended by King IV. The positions disclosed reflect an assessment of the group's performance on the principles. This document is supplemented by governance-related disclosures in the rest of the integrated annual report and annual financial statements. It should therefore not be read in isolation, as the aim was not to duplicate information.

King IV principles	Application of principles
<b>1 Leadership</b>	
The governing body should lead ethically and effectively.	The board has applied a common ethical decision-making framework across the organisation, which is clearly defined in the code of ethics. The executives and senior management teams are responsible for ensuring that these ethical values and effective behaviours are instilled and maintained in the daily activities of the group.
<b>2 Organisational ethics</b>	
The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.	<p>The members of the board are held accountable for ethical decision-making and behaviour.</p> <p>The board governs and monitors the ethics of Libstar on the basis of integrity, competency, responsibility, accountability, fairness and transparency. The board endeavours to ensure that the ethical standards set are integrated and understood throughout Libstar. The social and ethics committee and the audit and risk committee assist the board with monitoring and reporting on social, ethical and transformational practices that support the establishment of an ethical culture within Libstar.</p> <p>Libstar is also in the process of rolling out a whistle-blowing policy for the reporting and investigation of breaches in the ethical and compliance standards established and integrated throughout Libstar.</p>
<b>3 Responsible corporate citizenship</b>	
The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen.	<p>The board has established committees to effectively deal with and dispose of the matters delegated to it. Each has formal written terms of reference:</p> <ul style="list-style-type: none"> <li>■ Audit and risk committee;</li> <li>■ Remuneration committee;</li> <li>■ Nomination committee;</li> <li>■ Investment and strategy committee; and</li> <li>■ Social and ethics committee.</li> </ul> <p>The various committees are appropriately constituted with due regard to the skills, expertise, experience and time required by each committee. They are also entitled to access any required information and outside professional assistance that may be necessary to effectively discharge their roles and responsibilities. The committees are empowered to make decisions within its respective mandate. The committees comprise mainly non-executive directors, with the majority of these being independent. The board has ensured that no member of a committee or the board has unfettered discretion. The members of the executive and senior management are invited to attend meetings of the committees, as required. The audit and risk committee, which meets at least twice in a financial year, will annually consider and assess the expertise and experience of the CFO. This will be confirmed in the integrated annual report.</p>

King IV principles	Application of principles
<b>4 Strategy and performance</b>	
<p>The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.</p>	<p>The board is ultimately responsible for the strategy, growth and performance of the business. It provides strategic direction by:</p> <ul style="list-style-type: none"> <li>▪ Considering the capital plans for Libstar's sustainability and expansion;</li> <li>▪ Reviewing the annual budget and key operational objectives and ensuring that they are aligned to the mission and values of Libstar; and</li> <li>▪ Ensuring that it complies with its reporting guidelines.</li> </ul> <p>After approving operational and investment plans and strategies, the board empowers management to implement these and to provide timely, accurate and relevant feedback on progress.</p>
<b>5 Reporting</b>	
<p>The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance, and its short-, medium- and long-term prospects.</p>	<p>The board is committed to high standards of reporting and conformity. The board ensures that the integrated annual report provides an accurate, complete and integrated representation of the group, including financial performance, corporate governance, risk management and sustainability. The audit and risk committee assists the board by reviewing the annual integrated report to ensure that information contained is reliable and that it does not contradict the financial aspects of the report.</p>
<b>6 Primary roles and responsibilities of the governing body</b>	
<p>The governing body should serve as the focal point and custodian of corporate governance in the organisation.</p>	<p>The board has adopted a charter which:</p> <ul style="list-style-type: none"> <li>▪ Details the board's roles, responsibilities and functions of directors and officials of the companies; and</li> <li>▪ Ensures that good corporate governance is maintained throughout the group.</li> </ul>
<b>7 Composition of the governing body</b>	
<p>The governing body should comprise an appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.</p>	<p>The board consists of seven directors, which consist of three independent non-executive directors, two non-executive directors and two salaried executive directors. Through the remuneration and nomination committees, the board is appropriately constituted to effectively execute its responsibilities.</p>
<b>8 Committees of the governing body</b>	
<p>The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties.</p>	<p>There is a clear balance of power within the board and its sub-committees to prevent any individual from having undue decision-making powers.</p> <p>The board has delegated certain functions to the following committees:</p> <ul style="list-style-type: none"> <li>▪ Audit and risk;</li> <li>▪ Social and ethics;</li> <li>▪ Remuneration;</li> <li>▪ Nomination; and</li> <li>▪ Investment and strategy.</li> </ul>

**King IV principles****Application of principles****9 Evaluation of the performance of the governing body**

The governing body should ensure that the evaluation of its own performance and that of its committees, its chairs and its individual members, support continued improvement in its performance and effectiveness.

The various committees are required to review their own performance annually, in accordance with the respective terms of reference. Currently, management and executive directors are assessed by the remuneration committee on an annual basis. Libstar is in the process of developing a framework for the evaluation of its board, committees, the chairman and the members of the board and committees. The focus of the framework will be to review the performance of the board and its committees regularly (at least annually) to result in competence, capacity and required good governance to continue to comply with its responsibilities and fiduciary duties under the South African Companies Act.

**10 Appointment of and delegation to management**

The governing body should ensure that the appointment of and delegation to management contribute to role clarity and the effective exercise of authority and responsibilities.

The collective responsibilities of management vest in the CEO. The CEO bears ultimate responsibility for all management functions. The board delegates without abdicating its duties and responsibilities to management through the CEO, who in turn delegates to those reporting to him.

**11 Risk governance**

The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.

The board is ultimately responsible for the governance of risk and has assigned oversight of the group's risk management function to the risk committee.

Management is accountable to the board for designing, implementing and monitoring the processes of risk management and integrating them into the day-to-day activities of the group.

The audit and risk committee takes material changes and trends in the risk profile into account and considers whether the control systems, including reporting, adequately supports the achievement of the risk management objectives.

The board is responsible for:

- Determining the levels of risk tolerance; and
- The processes and policies to ensure:
  - That risk assessments are performed on a continuous basis;
  - That frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks;
  - That management continuously monitors risk and considers and implements appropriate risk responses; and
  - That procedures and practices are in place to protect the company's assets and reputation.

**12 Technology and information governance**

The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.

The board is continuously conscious of the importance of the governance and management of technology and information to the overall operation and success of Libstar. This responsibility has been delegated to the IT steering committee.

This includes:

- Aligning IT with the performance and sustainability objectives;
- Monitoring and evaluating significant IT investments and expenditure; and
- Ensuring that information assets are managed effectively.

King IV principles	Application of principles
<b>13 Compliance governance</b>	
<p>The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.</p>	<p>The board recognises the importance of the governance and management of compliance to the overall operation and success of Libstar. In this regard, the board has also appointed the social and ethics committee and the audit and risk committee to assist with attaining and maintaining responsible corporate citizenship by taking into account legal and ethical compliance with applicable regulations and policies.</p>
<b>14 Remuneration and governance</b>	
<p>The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.</p>	<p>The board is committed to its social and economic responsibilities towards Libstar's employees and members of the board. The board has delegated this responsibility to the remuneration committee. The role of the committee is to ensure that the remuneration packages are market-based, transparent and performance dependent. It also ensures the establishment of appropriate remuneration frameworks and policies, which aim to attract and retain top talent, and drive long-term growth and sustainable performance.</p>
<b>15 Combined assurance</b>	
<p>The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation's external reports.</p>	<p>The board recognises and assumes its overall and ultimate responsibility in relation to assurance. It complies with this principle and the recommended practices and ensures that a combined assurance model is followed. The board recognises that transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence. In this regard:</p> <ul style="list-style-type: none"> <li>■ Complete, timely, relevant, accurate, honest and accessible information is provided by the company to stakeholders, having regard to legal and strategic considerations; and</li> <li>■ Communication with stakeholders attempts to be clear and in an understandable language.</li> </ul>
<b>16 Stakeholders</b>	
<p>In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder inclusive approach that balances the needs, interests, and expectations of material stakeholders in the best interests of the organisation over time.</p>	<p>Libstar is committed to good governance and compliance with legislative requirements at all levels of the business and in all its interactions with stakeholders. Libstar fully embraces an inclusive stakeholder approach, which is monitored by the social and ethics committee. The board acknowledges and encourages engagement with shareholders. The board further recognises its responsibility to ensure that Libstar acts as a good corporate citizen and performs its obligations towards its employees, shareholders, customers, suppliers, competitors and the community in which it operates in good faith.</p>
<b>17 Stakeholders</b>	
<p>The governing body of an institutional investor organisation should ensure that responsible investment is practiced by the organisation to promote the good governance and the creation of value by the companies in which it invests.</p>	<p>Libstar is not a financial institution defined in terms of the Financial Services Board Act, No 97 of 1990.</p>

## SECTION 3: SOCIAL AND ETHICS COMMITTEE REPORT

Libstar is committed to realising sustainable long-term stakeholder and social value whilst aiming to reduce any negative impact on the environment and society.

### INTRODUCTION

The social and ethics committee is governed by a formal charter. It assists the board to monitor the group's activities in terms of legislation, regulation and codes of best practice relating to corporate citizenship, organisational ethics and stakeholder engagement.

Our policies and processes are guided by the requirements of King IV and ensure that the rights of shareholders, employees, customers, suppliers, and other stakeholders are respected and upheld. Policies are aligned with the recommendations of the Organisation for Economic Cooperation and Development on corruption and the ten principles set out in the United Nations Global Compact.

### Role of the committee

The committee's responsibilities include:

- Monitoring the company's activities, having regard to any relevant legislation and other legal requirements or prevailing codes of best practice;
- Making recommendations relating to these activities to the board; and
- Reporting annually at the AGM to shareholders on matters within the committee's mandate.

### Committee composition

- The social and ethics committee was established as required under the South African Companies Act and as advocated under the King IV principles.
- The committee members are appointed by the board.

The committee members comprised the following members during the period under review:

- Phumzile Langeni (chairman) – Appointed 1 March 2018;
- A Patel (previous chairman) – Resigned 12 April 2018;
- Sibongile Masinga (chairman for F2019) – Appointed 14 December 2018 to take over from Phumzile Langeni;
- Wendy Luhabe – Appointed 27 March 2019;
- Leon Conradie;
- Terry Millar – Resigned on 4 December 2018; and
- Solach Pather.

### Activities of the committee

The committee met three times during the year and approved the following items:

- Approval of various governance policies, including the code of ethics, the code of conduct, a conflicts of interest policy and an anti-bribery policy;
- Considered the impact of the proposed new B-BBEE codes on the group's scorecard;
- Reviewed the group's progress against the employment equity plans;
- Reviewed current developments with respect to labour relations, including ensuring compliance and updates on wage negotiations; and
- Reviewed the environmental and health and safety standards.

### Broad-based black economic empowerment

Libstar is committed to the principles of the broad-based black economic empowerment regulations and transformation in the group. The ratings were independently verified by AQRate in F2018 and MSCT BEE Services in F2017.

B-BBEE element	Maximum score	F2018
Ownership	25.0	8.07
Management control	19.0	5.10
Skills development	20.0	7.99
Preferential procurement and enterprise development	40.0	11.43
Socioeconomic development	15.0	15.00
<b>Total</b>	100.0	<b>47.59</b>

Level Non-compliant\*

B-BBEE element	Maximum score	F2017
Ownership	20.0	15.28
Management control	10.0	0.86
Employment equity	15.0	2.25
Skills development	15.0	6.42
Preferential procurement	20.0	8.85
– Ensuring ethical standards are managed effectively		
– Ensuring environmental, health and safety standards are managed effectively		
Enterprise development	15.0	2.94
Socioeconomic development	5.0	7.25
<b>Total</b>	100.0	<b>43.85</b>

Level 7

\* The group achieved a group level 8 compliant status, but the level was dropped to non-compliant due to the prescribed minimum levels on certain of the elements not being met.

## Ownership

The reduced score for ownership was due to a slight decrease in our black shareholding across the ownership following the listing and rebasing of shareholders and the flow-through principle of previous shareholding having passed five years.

## Management control and employment equity

Black non-executive directors accounted for 27.8% of the board, which include a black female chairman and a black non-executive director.

Black employees account for:

- 7.5% of senior management;
- 21.3% of middle management; and
- 42.2% of junior management.

## Skills development

The group invested 0.01% on skills development. A plan will be developed in the coming year to focus on improving the skills of black people, especially employees with scarce and critical skills.

## Preferential procurement and enterprise development

The group will develop a detailed plan to increase B-BBEE procurement spend.

We will also partner with SME suppliers and focus on obtaining B-BBEE certificates for all suppliers.

## Socio-economic development

We support innovative and responsible initiatives aimed at corporate social upliftment. The group contributes to a variety of programmes through its operating units. Total spend for the year was R24.2 million.

Contributions in the past year include:

- Transport and housing;
- Discounts to employees in addition to normal business practice;
- Grants and related contributions; and
- Donations made in support of healthcare/HIV/AIDS initiatives, community development and education programmes.

During the course of F2018, shares were repurchased from the Amaro Foods Staff Trust for an amount of R11.3 million. 414 employees benefited from this initiative.

We also launched a youth development programme at Lancewood that involves offering mentoring to 20 learners to improve skills in key academic programmes, life skills and community development and civil responsibility. The programme will also assist the learners to gain access to tertiary education and secure jobs after their studies.

In addition, at Multi-cup, a number of learnerships were launched in the year for unemployed young people.

Going forward, we will refocus our spend towards education, training and the improvement of previously disadvantaged communities.

## Environmental management

We have adopted a strategy that strives to minimise any impact on the environment by regularly reviewing our activities and compliance with all relevant legislation.

In light of water shortages experienced in the Western Cape, various initiatives were put in place at our manufacturing facilities. This included grey water systems and boreholes. This resulted in a 45% reduction in water use, with further initiatives in place without compromising product safety, integrity or site hygiene standards.

In addition, we converted the manufacturing of our earbuds from plastic to paper sticks.

We also changed from plastic packaging to food grade paper packaging. This has facilitated a fully recyclable and biodegradable product.



## SECTION 4: COMPLIANCE AND REGULATORY

The board ensures that Libstar complies with all of its statutory obligations specified in the memorandum of incorporation of the company, the South African Companies Act, the Listings Requirements and all other regulatory requirements.

Relevant legislation	Responsibility
<b>COMPANIES ACT</b> <b>JSE LISTINGS REQUIREMENTS</b> <b>KING IV REQUIREMENTS</b>	Group company secretary
<b>TAX ADMINISTRATION</b>	Group finance
<b>BASIC CONDITIONS OF EMPLOYMENT</b> <b>LABOUR RELATIONS ACT</b> <b>EMPLOYMENT EQUITY ACT</b>	Group human resources
<b>BROAD-BASED BLACK ECONOMIC EMPOWERMENT (B-BBEE ACT AND AMENDMENT ACT)</b>	Group human resources
<b>PRIVACY LAWS</b>	Group commercial and risk
<b>CORPORATE AND COMMERCIAL PROCUREMENT LEGISLATION</b>	Group commercial, supply chain and risk
<b>ANTI-BRIBERY AND ANTI-CORRUPTION LEGISLATION</b> <b>COMPETITION LAW</b>	Group commercial, supply chain and risk
<b>SAFETY, HEALTH AND ENVIRONMENTAL LEGISLATION</b>	Group commercial, supply chain and risk

### COMPLIANCE

Each business unit is required to achieve compliance with a number of key standards in addition to the standards that have been imposed on them by their customers, including:

**FSSC 22000 or ISO 9001:** FSSC 22000 certification is required for all food production facilities, whilst ISO 9001 certification is required for non-food manufacturing units. FSSC 22000 is a widely-accepted international food safety and quality management system and one of only eight GFSI-accredited standards that provide a framework for managing food safety. This demonstrates that the group has a robust food safety management system in place. ISO 9001 is a set of international standards on quality management and quality assurance developed to help companies effectively document the quality system elements to maintain an efficient quality system.

**ISO 14001, 45000 and 55001:** These international standards specify requirements relating to effective environmental management, occupational health and safety management and asset management systems.

**Halaal and Kosher certifications:** These are certifications provided to compliant food manufacturers confirming that the processes employed and products produced meet certain religious and cultural requirements.

We have achieved compliance with over 50 unique codes and have received more than 150 certifications, including 34 proprietary (customer-specific) codes and 25 industry-related codes.

Some of the group's certifications are outlined below:

- 23 of the food production facilities are in possession of FSSC 22000 certifications, a further four have complied with internal audits and are expecting to receive formal FSSC 22000 certification shortly and the remaining facilities are at various stages of achieving compliance with the relevant food safety standards. Certain facilities of the group that were recently acquired are still in the process of FSSC 22000 compliance for certification. Certain of the production facilities within the group also comply with other recognised industry standards, such as BRC Global Standards.
- Two of the non-food production facilities have received ISO 9001 certifications. Certain non-food production facilities of the group that were recently acquired are still in the process of ISO 9001 certification and two non-food production facilities have passed the first stage of the ISO 9001 compliance certification process.
- 28 of the group's manufacturing and warehousing facilities are in possession of Halaal certifications and 17 of the group's manufacturing and warehousing facilities are in possession of Kosher certifications.
- 34 of the manufacturing and warehousing facilities have passed strict health and safety, food safety and quality control audits conducted by a number of the group's key customers, such as Woolworths, McDonald's, Pick n Pay, Shoprite Checkers, Tiger Brands, Unilever, Nestlé and Clicks.

## Legislative and regulatory compliance

Libstar manages its business responsibly and in compliance with statutory and regulatory requirements. Regulatory legislation and compliance relevant to the group is presented to the board. An external consultancy has been appointed to evaluate the group's employment equity and transformation initiatives to achieve compliance and align the group to best practice.

## STAKEHOLDER RELATIONS

Consultants are retained by Libstar to advise management on its stakeholder strategy and activities.

We aim to implement proactive and timely communication with all stakeholders, whilst protecting the rights of all shareholders by providing equal access to information, with the simultaneous release of information and no selective disclosure of information.

## ANTI-BRIBERY AND ANTI-CORRUPTION LEGISLATION

Libstar's values encompass integrity and transparency. Libstar has developed a specific programme to counter bribery. This involves the adoption of an anti-bribery policy and the introduction of a whistle-blowing line.

Libstar is committed to:

- Conduct its business fairly, honestly and transparently;
- Not making or offering bribes, whether directly or indirectly, to gain business advantages;
- Not accepting bribes, whether directly or indirectly, to give business advantages; and
- A zero tolerance towards bribery.

The corporate code of conduct and ethics policy sets the guidelines that define acceptable and responsible behaviours for the group and employees.

The code prohibits:

- Cash gifts;
- The giving or receiving of gifts, loans, favours or any other benefit which may be regarded as influencing business, labour or governmental decisions;
- Donations or contributions to a political party; and
- Engaging in activities which may involve a conflict of interest with the group's employment position.

The board recognised the need for a confidential reporting mechanism (whistle-blowing hotline) covering fraud and other risks. A tip-offs anonymous whistle-blowing hotline, with an anonymous toll-free number, will provide an impartial facility for all stakeholders to report fraud, statutory malpractice, crime and deviations from policy. This is being introduced to the group.

No transgressions were reported under the current reporting period.

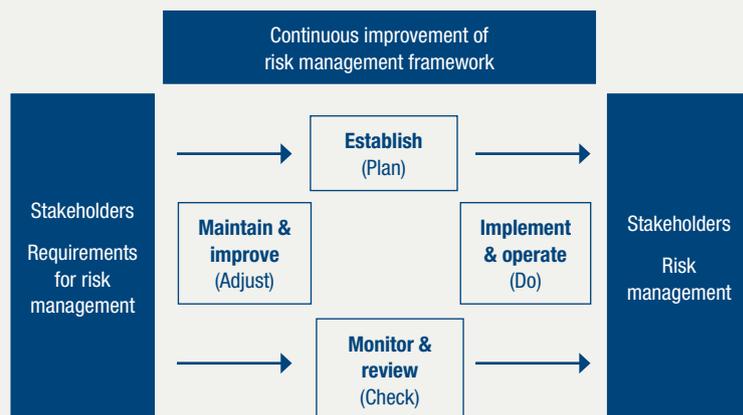
Future focus areas include training initiatives, where appropriate, and will be made in line with our objective to continuously improve and entrench ethical and anti-fraud practices.



## SECTION 5: RISK MANAGEMENT

The board recognises that risk management is a key component of good governance, which involves a consideration of both risks and opportunities. In this context, Libstar is required to not only mitigate negative consequences of actions, but to also seek out opportunities.

Libstar has implemented the following risk management framework and standards:



Plan: Establish the risk management framework  
 Do: Implement and operate  
 Check: Monitor and review its effectiveness  
 Adjust (Act): Maintain and continuously improve

The board has responsibilities across multiple lines of defence. These include the executive leadership team, management and the overall workforce.

The group has established a risk management framework. The process involved:

- Defining an operating model, along with strategic and operational objectives;
- Defining external and internal factors that give rise to the risk that the group might not meet its objectives;
- Determining externally-imposed risk parameters (including regulatory, legal, social and contractual); and
- Application of the risk management process and definition of internal parameters.

Risks have been categorised as follows:

- **Ethics:** Ethics-related opportunities, uncertainties, threats or barriers.
- **External and financial:** Uncertainty regarding the management and control of the finances of the group.
- **Environmental:** Losses arising from damage to property, which typically includes the perils covered by insurance.
- **Human resources:** Uncertainty related to compliance with human resource management policies and procedures, employee morale and organisational culture.
- **Legal/regulatory compliance:** Uncertainty related to laws, statutes, and administrative regulations that govern how an organisation operates.
- **Reputational:** Uncertainty related to brand, perceived value, organisational status and public perception and trust.
- **Strategic:** Uncertainty related to long-term policy directions of the organisation (big-picture risk or material risk).

The risk assessment process consists of three steps:

- 1 Risk identification**
- 2 Risk analysis** – (Including consideration of the sources and causes of a specific risk event occurring, consequences/ impact of the risk event occurring, the likelihood that the risk event will occur, and the impact on the group's objectives).
- 3 Risk evaluation** – We have sound management processes to manage risks. The key financial risk management aspects are outlined in more detail.

### Financial risk management

The individual companies within the group provide services to the business, coordinate access to domestic and international financial markets, monitor and manage the financial risks relating to the operations of the group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

We seek to minimise the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the group's policies approved by the board, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity.

Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

### Capital risk management

We manage our capital to ensure that entities in the group will be able to continue as going concerns whilst maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the group consists of net debt (bank loans and asset-based finance offset by cash and bank balances) and equity of the group (comprising issued capital, reserves, retained earnings and

non-controlling interests). The group is not subject to any externally-imposed capital requirements.

### Foreign currency risk management

As the group undertakes transactions denominated in foreign currencies, exposure to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

### Interest rate risk management

We are exposed to interest rate risk as entities in the group borrow funds at floating interest rates.

### Credit risk management

Credit risk arises from the risk that a counterparty may default or not meet its obligations timeously. We limit our counterparty exposure arising from financial instruments by only dealing with well-established institutions of high credit standing. The group does not expect any counterparties to fail to meet their obligations given their high credit ratings.

Cash and cash equivalents are kept with counterparties that have sound credit ratings. Management does not expect any counterparties to fail to meet their obligations.

Our credit exposure in respect of the financial assets are considered not to be material.

Credit risk in respect of our customer base is controlled by the application of credit limits and credit monitoring procedures. Certain significant receivables are monitored on a daily basis.

Where appropriate, credit guarantee insurance is obtained. We do not hold any collateral in respect of our customers.

### Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board, which has established an appropriate liquidity risk management framework for the management of the group's short-, medium- and long-term funding and liquidity management requirements. The group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The following key risks were identified during the year:

Issues	Risks	Mitigation
<b>FOREIGN EXCHANGE</b>	Exposure to fluctuations in exchange rates could impact profitability.	The group has formalised foreign exchange hedging policies designed to mitigate the impact of foreign currency fluctuations. Outsourced treasury consultants assist the group in ensuring that these policies are appropriately implemented. Refer to page 50 in the printed section of the integrated annual report.
<b>COMPETITION FROM LOCAL AND MULTI-NATIONAL COMPANIES</b>	Stringent competition could impact profitability.	The group does not produce commoditised products, but rather focuses on the low-cost manufacture of quality, value-added products. The group leverages its long-standing relationships with customers in the retail, wholesale, industrial and export channels to produce products which are marketed to consumers under the group's own and dealer-owned or private label brands which are developed in partnership with the group's customers. The group maintains relevance through its ability to produce innovative products which cater to changing consumer trends, and by developing new products which grow existing categories.
<b>SUPPLY CHAIN BUSINESS INTERRUPTION</b>	Disruption to the sourcing of raw materials and packaging goods could impact overall profitability.	The group's divisional business units maintain contingency plans which cater for the sourcing of key inputs from at least two alternative suppliers when required.
<b>INFORMATION SYSTEMS AND RELATED INTEGRATION</b>	Failure in the information systems or system integrations may compromise the integrity of financial and non-financial information.	The group employs information technology and integration specialists who design, implement and project manage system implementation or integrations across all divisional business units in conjunction with external software design teams. Standard software applications are maintained across the group to ensure integrity and compatibility of information. Appropriate procedures for failure and effective backup are implemented to ensure data continuity.
<b>LABOUR</b>	Protracted industrial action could impact business continuity.	Wage negotiations are decentralised. Where appropriate, wage agreements are locked in for more than a year to promote labour force stability. Employees are included in the business unit level strategy formation to ensure alignment.