

# CORPORATE GOVERNANCE REPORT



## GOVERNANCE CULTURE

York's business model is straightforward – maintain and grow mutually beneficial business relationships by ensuring that we provide our customers with quality, needed products at affordable prices that will enable them to make a fair profit or to obtain a fair return on their investment in those products.

Key to our continued growth has been the concept of fair-trading, central to which are the values of accountability, openness and integrity. As such, York's commitment to good corporate governance is not only compliance driven; it is the framework of our organisational culture and underlies our business strategies. It is a dynamic commitment responsive to the expectations of our stakeholders and infuses York's stance as a responsible corporate citizen.

## KEY GOVERNANCE HIGHLIGHTS

During the period under review York reinvented itself in terms of its governance and ownership structures. Blackstar Plc acquired the shareholding of the erstwhile controlling shareholders and shortly thereafter York's executive team concluded the acquisition of the Global Forest Products group of companies (GFP).

Resulting from the GFP transaction York's issued share capital increased more than sevenfold from 11,040,597 shares to 78,370,068 listed ordinary shares plus 2,870,529 voting but unlisted, convertible, non-redeemable, cumulative preference shares.

Except for the executive team of Lance Cooper (CEO), John Lehman (CFO) and Gay Mokoena (previously a non-executive director appointed an executive director in October 2007), the Board and its sub-committees were reconstituted in their entirety. The Board of York comprises eleven directors, eight of whom are independent and/or non-executive directors, with a diversity of skills and experience suited to York's market capitalisation and market share. Detail of the resignations and appointments of directors appear on page 51.

## BOARD OF DIRECTORS

### ROLE AND FUNCTION

The Board of directors is the focal point of York's governance framework. It is a balanced, unitary Board which at year-end comprised as set out above. The Board is collectively mandated to set clear the long-term strategic direction, the annual Board and business plans of the Group and to monitor progress towards achievement of the Group's objectives set against the of economic, environmental and social issues that pertain to York; ensure the integrity of the financial statements to fairly present the state of affairs of the Company and of the Group; maintain and manage an effective system of key risk and internal control, and the highest standard of compliance with the Code of Corporate Practices and Conduct (King II) and with the JSE Listing Requirements; select directors subject to election by the members in general meeting and to evaluate their performance; act in good faith with skill and diligence and exercise the necessary care in carrying out their duties owed to the Company.

Apart from their invaluable role as members of the various Board committees, certain of York's non-executive directors function in an advisory capacity in respect of operational matters, in which capacity they act as consultants to the executive, subject always to the inherent fiduciary role of all directors in terms of their statutory and other obligations.

### NOMINATION PROCEDURE AND SERVICE CONTRACTS

In terms of York's existing procedure each of the directors must have been separately identified by a sub-committee of the Board, acting as a Nomination Committee, as persons with the required skills and experience to bring to bear on the strategy, performance, standards of conduct and resources of the Company. The Board as a whole individually considers the nomination and values that will ensure diversity and full and free exchange amongst Board members. No director has a service contract enduring beyond a year and re-appointment is subject to performance evaluation. In terms of the Company's Articles of Association, the Board must from amongst its members appoint executive directors and executive appointments may not exceed a period of three years. In addition, the appointment of new directors and re-appointment of directors who retire by rotation is subject to confirmation at the next Annual General Meeting of shareholders. One-third of the directors is subject to retirement by rotation but they are eligible for re-election should they so offer themselves.



# CORPORATE GOVERNANCE REPORT

## BOARD MEETING FREQUENCY AND ATTENDANCE

The Board meets at least quarterly to review results and to receive the reports of the chairpersons of the Audit, Transformation and Remuneration Committees. In the period under review meetings were held and attended as set out in the table below:

	2007							2008		
	11/1/07	14/2/07	26/2/07	28/3/07	30/5/07	04/9/07	14/11/07	20/2/08	20/3/08	23/4/08
Van Vuuren	✓	✓	Res.							
Kopp	✓	✓	Res.							
De Villiers	✓	✓	Res.							
Tucker	✓	✓	✓	✓	Res.					
Motlana	✓	✓	✓	✓	✓	Res.				
Marshall-Smith		App.	✓	✓	✓	Res.				
Myers (Chair)		App.		✓	✓	✓	✓	✓	✓	✓
Bonamour		App.	✓	✓	✓	✓		✓	✓	✓
Claunch				App.	✓	✓	✓	✓	✓	✓
Botha					App.	✓	✓	✓	✓	✓
Meer					App.	✓	✓	✓	✓	✓
Modise					App.	✓	✓	✓	✓	✓
Murray					App.	✓		✓	✓	✓
Tipper					App.	✓		✓	✓	✓
Odendaal									App.	✓
Cooper	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Lehman	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mokoena	✓	✓	✓	✓	✓		✓	✓	✓	✓

Annual General Meeting of 5 June 2007 and Special General Meetings of 20 February 2007 and 9 July 2007 not shown.

## AUDIT AND RISK COMMITTEE

### ROLE AND PRINCIPAL FUNCTIONS

During the period under review the Board reformulated written terms of reference for the Audit Committee. The committee is mandated to consider and make the appropriate recommendations to the Board in regard to, inter alia, the appropriateness of the expertise and experience of the financial director, the appointment of independent external auditors, the auditors' remuneration and in particular their involvement in the performance of non-audit services to the Group.

## AUDIT COMMITTEE MEETING FREQUENCY AND ATTENDANCE

The committee meets at least quarterly to examine and review the management accounts, interim results and annual financial statements of the Company. In the period under review meetings were held and attended as set out in the table below:

	2007				2008
	26/02/07	30/05/07	21/09/07	27/11/07	19/03/08
Tucker	✓	Res.			
Cooper	✓	✓	Res.		
Marshall-Smith	✓	✓	Res.		
Bonamour	App.	✓	✓		✓
Botha (Acting Chair)		App.	✓	✓	✓
Modise		App.	✓	✓	✓
Tipper		App.	✓	✓	✓

The financial director, external auditor and internal auditor was present at each meeting by invitation.

## RISK MANAGEMENT PROGRAMME

Although ultimately the Board as a whole remain responsible for York's system of internal control, the Audit Committee is mandated to monitor and supervise the effective functioning of the internal audit function in order to assure the effectiveness of York's systems of internal control, including internal financial control and business risk management.

York's risk management programme is integrated at all levels of the Group's structure. The financial control system is managed by means of a weekly analysis of segmental contributions that are consolidated into detailed monthly management accounts. An independent firm performs an ongoing internal audit of York's operations and accounts.

The aim is not merely to attain an automated state of compliance but to have structures in place that will monitor key risk areas and further strengthen management's ability to control, minimise and, where possible, avoid adverse risk. Internal Audit annually submits a work plan and report at senior level to the chairperson of the Audit Committee. It also has unfettered access to the Chairperson of the Board.

York maintains comprehensive insurance cover against unavoidable loss, business interruption, machinery breakdown, etc. Its insurance cover is reviewed annually in consultation with brokers and industry experts. In addition, York, in consultation with its broker and insurer's representatives conduct operation specific risk audits which are documented and used to systematically further reduce operational risk. These ongoing annual risk audits include the preparation of Fire Protection Plans for its various plantation regions.

# CORPORATE GOVERNANCE REPORT

## DISCHARGE OF RESPONSIBILITIES

The Board is satisfied that the Audit Committee has in compliance with its terms of reference performed its responsibilities for the period under review.

## REMUNERATION COMMITTEE

### ROLE AND PRINCIPAL FUNCTIONS

The Remuneration Committee is mandated to develop and from time to time to review the remuneration strategy of York. The committee discharges its responsibilities with the assistance of independent remuneration consultants (and their reports based on industry comparatives). The committee reports its recommendations to the Board who, as a whole, considers the committee's proposals.

The functions of the committee includes the setting of remuneration and incentive packages for the executive directors and certain senior managers, evaluating and rewarding the performance of the executive directors and recommending policy relating to York's bonus and share based or other incentive programmes. In addition the committee recommends the basis for non-executive directors' fees and reviews the process for annual salary increases and adjustments when appropriate. The fees payable to non-executive directors are in turn subject to the approval of the shareholders of York in general meeting.

### REMUNERATION COMMITTEE MEETING FREQUENCY AND ATTENDANCE

The committee meets at least once a year and during the period under review meetings were held and attended as set out in the table below:

	2007			2008	
	28/03/07	30/05/07	01/10/07	19/3/08	11/04/08
Tucker	✓	Res.			
Bonamour	✓	✓	Res.		
Myers (Chair)	✓	✓	✓	✓	✓
Claunch	App.	✓	✓		✓
Meer		App.	✓	✓	✓
Murray		App.	✓	✓	✓

### CASH-SETTLED MEDIUM-TERM INCENTIVE PROGRAMME

In the period under review the committee recommended a cash-settled medium-term incentive programme for executive directors and senior management of York, which programme was approved by the Board. The programme was developed as a mechanism to retain key members of management, reward operational performance and to afford key managers the opportunity to benefit from growth in the value of the shares of York. In terms of the programme, and on the appropriate recommendations being received from the Remuneration Committee, the Board will annually allocate a number of phantom shares to key managers. An annual cash bonus, calculated in terms of a pre-determined formula and the number of phantom shares allocated, will be awarded to the manager based on the preceding three-monthly weighted average closing price of York's shares on the JSE. The cash awards will accrue annually over a three-year period and be payable on a date at the fifth anniversary of the first allocation.

No actual shares will be subscribed for or transferred to the participating key managers. Continued inclusion and the level of participation in the programme are dependent on a number of factors including the manager's operational performance, previous allocations made and seniority. As such, the Board retains control over the programme and the participation factors.

Shareholders will benefit from the programme in that the programme ensures the retention of the services of talented individuals in key positions which in turn assure business continuity in addition to which it aligns management's interests with those of shareholders by placing the sustained growth of York's equity at the heart of operational performance.

## EXECUTIVE DIRECTORS' REMUNERATION

The executive directors' remuneration packages (including performance and other bonuses, incentive programme costs, retirement and medical aid contributions and other costs of employment) are detailed on page 104 of this report.

## DISCHARGE OF RESPONSIBILITIES

Having regard to the role and functions of the committee and the strategies implemented the Board is of the view that the Remuneration Committee has carried out its mandate during the period under review.

## TRANSFORMATION COMMITTEE

### ROLE AND PRINCIPAL FUNCTIONS

The Transformation Committee was established in late 2007. Its primary objectives are to ensure that York attains transformation in compliance with the Forestry Charter and that the Group is positioned to its best advantage in the industry. To achieve these objectives the committee will assist with the development of policies and guidelines for the management of transformation issues such as procurement, employment equity, human resource development and retention, succession planning and social development.

Principally the committee will provide a forum for discussing transformation issues and presenting key findings to the Board from the ongoing monitoring and reporting processes and ensure that there is a disciplined and co-ordinated approach to all transformation and social issues within the Group.

### TRANSFORMATION COMMITTEE MEETING FREQUENCY AND ATTENDANCE

The committee meets at least once annually to consider, inter alia, the Group's employment equity reports and at that time to make recommendations for the ensuing year. During the period under review meetings were held and attended as set out in the table below:

	<b>2007</b> <b>27/11/07</b>	<b>2008</b> <b>19/03/08</b>
Modise (Chair)	✓	✓
Botha	✓	✓
Cooper	✓	✓
Mokoena	App.	✓

Gay Mokoena, Director Corporate Services, was appointed to the committee at its March 2008 meeting and was, inter alia, charged with implementing a Corporate Social Investment strategy for the York Group; to finalise York's BEE rating and to evaluate York's involvement with enterprise development in the timber industry. The progress in these areas is included in the Sustainability Report.

# CORPORATE GOVERNANCE REPORT



## DISCHARGE OF RESPONSIBILITIES

The Board is satisfied that the Transformation Committee has performed its responsibilities for the period under review.

## DIRECTORS' DISCLOSURES AND DEALING IN SECURITIES

### SECURITIES TRADING POLICY AND RULES

The Board approved a revised Share Trading Policy and Rules to regulate the dealing in the Company's securities by directors and employees who may, due to the nature of their duties, come into possession of price sensitive inside information. The policy and rules mirror the provisions of the Securities Services Act 36 of 2004 and the JSE Listings Requirements and is drawn in the spirit of good corporate governance. In summary, the directors and the Company Secretary are prohibited from trading in York securities during any closed periods; at any time when any of the directors are aware of unpublished price-sensitive information and/or if clearance to deal has been refused. Directors must obtain clearance to deal in York securities from the chairperson of the Board and in the case of the chairperson, from the chairperson of the Audit Committee, alternatively, the majority of the other directors serving on the Board.

Closed periods are from 31 December up to the date of publication of the interim results; from 1 June to date of publication of the preliminary, abridged or provisional annual financial statements and also during any period when York securities are traded under a cautionary announcement. The policy is freely available to directors and employees from either the Company Secretary or York's Human Resources Department.

## DIRECTORS' DISCLOSURE OF CONTRACTUAL INTERESTS

Directors of the Company are obliged and at every Board meeting given the opportunity to disclose any material interest in contracts with the Group in terms of Section 234 of the Companies Act. Such disclosures are noted by the Company Secretary and kept in a separate register of directors' disclosures.

## ORGANISATIONAL INTEGRITY AND CODE OF ETHICS

Directors and employees are required to maintain the highest ethical standards to ensure that our stakeholders are assured of our integrity and good faith in their interaction with us. Ethical guidelines commit us to the concept of fair-trading but also to compliance with a broad range of statutory obligations, industry practices and a vigilant protection of the Company's interests.

The application of our code echoes the practicalities of the dynamic cultural and corporate environments in which we operate – it is continually changing and adapting to the many synergies created within society as a whole. Our code is a living set of values to ensure that we remain within the mainstream of societal development whilst striving to exceed run-of-the-mill expectations. At York we believe that each individual is able to contribute to the success of the Group. As such the ethos requires of each to: perform to the best of his/her ability; honour the highest standards of ethics in dealing with fellow employees, customers, suppliers, service providers, members of the public and competitors; be dedicated to the improvement of their skills, ability and productivity and also to be good custodians of the Group's resources utilised in their spheres of activity.

## FAIR BUSINESS PRACTICES

York subscribes to the principles regulating fair business practices set out in the Competition Act and administered by the Competition Commission of South Africa. As such, its employees and officers are prohibited from engaging in any form of anti-competitive practice which includes collusive conduct.

## CORPORATE REPORTING, STAKEHOLDER COMMUNICATION AND RELATIONSHIPS

The Company's standard of corporate reporting has been recognised by inclusion in the Financial Mail Roll of Honour for companies which have won its annual report trophy more than three times. The Company has also been recognised by way of awards for excellence in corporate reporting given by the South African Institute of Chartered Accountants and the Institute of Chartered Secretaries of South Africa.

York on a regular basis, provides information to stakeholders through the Stock Exchange News Service ("SENS"), the media and its website (www.york.co.za). At the publication of its financial results it engages countrywide with investors and analysts to present the results and to answer questions and generally address any business raised in connection therewith.

Shareholders are invited and encouraged to attend the annual and special general meetings of the Company where voting is conducted by ballot (refer to the notice to shareholders on page 112 of this annual report for detail instructions).

York is involved with several groups and recognised associations in the timber industry and actively engage stakeholders on any number of issues affecting the Company and its interaction with stakeholders in the communities in which it operates. Details of York's involvement is reported in the Sustainability Report.

## GROUP SECRETARY AND ACCESS TO PROFESSIONAL ADVICE

Directors are entitled to seek independent professional advice, at the Company's expense, concerning the affairs of the Group and have unfettered access, to the Company Secretary. The Company Secretary performs his duties in accordance with the Companies Act, the JSE Listings Requirements and the provisions of King II and as such, provides the Board and directors individually with guidance on the discharge of their responsibilities and on matters relating to ethics and good corporate governance.

The Company Secretary is principally responsible to ensure compliance with JSE Listings Requirements and that the proceedings of the Board and its members the various Board Committees, general meetings of shareholders and salient management proceedings are properly administered and the appropriate statutory and other records maintained.

Together with the chairperson of the Board, the Company Secretary is involved in the flow of information within the Board and its committees and between Board and senior management. Directors and affected persons keep the Company Secretary advised of dealings in securities of the Company according to York's Share Trading Policy and Rules as well as of their material interests in contracts with the Company.

The appointment and removal of the Company Secretary is considered by the Board as a whole.

## KING II COMPLIANCE AND "CONTINUED GOING CONCERN"

The directors of York and the Group as a whole endorse the Code of Corporate Practices and Conduct contained in the King Report on Corporate Governance for South Africa 2002 ("King II"). The directors of York are of the opinion that the York group has, in the year under review, complied with and implemented the requirements of King II as set out therein and codified in the JSE Listings Requirements and other regulatory instruments. The directors believe that the Group operations will continue as going concerns in the financial year ahead.

## CERTIFICATE OF THE CHAIRMAN AND THE COMPANY SECRETARY IN TERMS OF SECTION 268(G)(D) OF THE COMPANIES ACT (AS AMENDED) AND SCHEDULE 8 OF THE JSE LISTING REQUIREMENTS (AS AMENDED)

We hereby certify that to the best of our knowledge the Company has lodged with the Registrar of Companies all returns as are required of a public company in terms of the Companies Act and that all such returns are true, correct and up-to-date and that all legal requirements have been fulfilled.

Jim Myers  
Non-executive Chairman

Francois Dekker  
Company Secretary

# CASH VALUE ADDED STATEMENT

FOR THE 18-MONTH PERIOD ENDED 30 JUNE 2008

	2008 R'000	Wealth created %	2006 R'000	Wealth created %
<p>The value added by Group operations, being the margin of revenue over expenditure on raw materials and third party services, is an indication of the wealth created by the Group's activities and is directly dependent upon our effectiveness in making York products and our skill in marketing them. The statement below summarises the total cash wealth created and how it was disbursed among the Group's stakeholders, leaving a retained amount which was re-invested in the Group for the replacement of assets and the further development of operations.</p>				
<p>Cash generated:</p>				
Cash derived from revenue	1,387,534		369,312	
Income from investments and interest received on cash balances	31,613		1,253	
Paid to suppliers for materials and services	(912,267)		(303,275)	
Cash value added	506,880	100.0	67,290	100.0
<p>Cash utilised to:</p>				
Remunerate employees for services	250,895	49.5	58,022	86.2
Pay direct taxes to the state	5,704	1.1	1,475	2.2
Provide lenders with a return on borrowings	163,279	32.2	5,282	7.9
Cash disbursed among stakeholders	419,878	82.8	64,779	96.3
<b>Cash retained in the Group</b>	<b>87,002</b>	<b>17.2</b>	<b>2,511</b>	<b>3.7</b>
<p>Note to Cash value-added statement</p>				
<p>Contribution to government</p>				
Direct taxes (as above)	5,704		1,475	
Value-added taxes	40,470		14,906	
Regional service council levies	23		188	
Rates and taxes paid to local authorities	6,869		1,470	
Amounts deducted from remuneration paid to employees	58,501		4,839	
Total contributions	111,567		22,878	

# DEFINITIONS OF TERMS

## **Borrowings**

Interest bearing long- and short-term financing from third parties.

## **Capital employed**

The sum of debt plus equity.

## **Company/Group**

Company — The York Timber Organisation Limited.

Group — The York Timber Organisation Limited and its subsidiaries.

## **Debt**

The sum of long-term borrowings and short-term borrowings less cash resources.

## **Debt equity ratio**

Debt divided by debt plus equity.

## **Earnings/(loss)**

Net profit/(loss) from ordinary activities.

## **Earnings/(loss) per share**

Earnings/(loss) divided by the weighted average number of shares in issue during the year.

## **Equity**

Total shareholders' funds.

## **Headline earnings/(loss) per share**

Earnings/(loss) adjusted for items of a capital nature divided by the weighted average number of shares in issue during the year.

## **Net asset value per share**

Equity divided by the number of shares in issue.

## **Net cash inflow/(outflow)**

Net increase/(decrease) in bank balances and cash.

# SHAREHOLDERS PROFILE

FOR THE 18-MONTH PERIOD ENDED 30 JUNE 2008

	Number of shareholders	%	Number of shares	%
<b>SHAREHOLDER SPREAD</b>				
1 - 1000 shares	203	30.52	73,144	0,09
1,001 - 5000 shares	267	40,15	568,193	0,73
5,001 - 10,000 shares	75	11,28	492,553	0,63
10,001 - 50,000 shares	73	10,98	1,376,239	1,76
50,001 shares and over	47	7,07	75,859,939	96,80
<b>Total</b>	<b>665</b>	<b>100%</b>	<b>78,370,068</b>	<b>100%</b>

## DISTRIBUTION OF SHAREHOLDERS

Banks	4	0.60	8,041	0.01
Broker	3	0.45	148,969	0.19
Close Corporations	13	1.96	23,518,748	30.01
Endowment Funds	4	0.60	12,002	0.02
Individuals	491	73.84	3,550,031	4.53
Insurance Companies	1	0.15	21,240	0.03
Investment Companies	2	0.30	5,420,125	6.92
Medical Aid Schemes	1	0.15	60,850	0.08
Mutual Funds	20	3.01	18,745,635	23.92
Nominees & Trusts	58	8.72	536,685	0.68
Other Corporations	25	3.76	8,387,153	10.70
Pension Funds	5	0.75	690,341	0.88
Private Companies	37	5.56	17,222,048	21.97
Share Trust	1	0.15	48,200	0.06
<b>Total</b>	<b>665</b>	<b>100</b>	<b>78,370,068</b>	<b>100</b>

## TRADE IN YORK SHARES ON THE JOHANNESBURG SECURITIES EXCHANGE

		18 months to June 2008	2006	2005	2004	2003	2002	2001
Number of transactions		<b>2,152</b>	116	254	72	30	27	25
Number of shares traded	'000	<b>18,777,625</b>	192	282	162	107	75	42
Value of shares traded	R000	<b>451,924,669</b>	2,378	2,925	482	207	119	38
Highest price	cents	<b>4,000</b>	1400	1415	400	205	190	150
Lowest price	cents	<b>1,000</b>	851	310	200	160	135	72
JSE Building & Construction Index		<b>27,468</b>	49,425	28,361	21,144	14,227	13,114	8,823
JSE Industrial Index		<b>10,519,192</b>	21,598	17,597	11,797	8,244	5,910	7,764

# SHAREHOLDERS PROFILE

FOR THE 18-MONTH PERIOD ENDED 30 JUNE 2008

	Number of shareholdings	%	Number of shares	%
<b>PUBLIC / NON-PUBLIC SHAREHOLDERS</b>				
Non - Public Shareholders	11	1.65	65,730,472	83.87
Directors of the Company holdings	7	1.05	21,288,771	27.16
Share Trust	1	0.15	48,200	0.06
Strategic Holdings (more than 10%)	3	0.45	44,393,501	56.65
Public Shareholders	654	98.35	12,639,596	16.13
<b>Total</b>	<b>665</b>	<b>100</b>	<b>78,370,068</b>	<b>100</b>

## BENEFICIAL SHAREHOLDERS HOLDING 3% OR MORE

Industrial Development Corporation	23,333,333	29.77
Lereko Metier Capital Growth Fund	12,924,314	16.49
Blackstar Investors Plc	8,135,854	10.38
Bridge Creek Trading 10 (Pty) Limited (York Community Trust)	7,200,000	9.19
RMB Ventures Four (Pty) Limited	5,000,000	6.38
Coronation Capital	5,000,000	6.38
Auburn Avenue Trading 55 (Pty) Limited (York Staff Trust)	2,800,000	3.57

## BREAKDOWN OF NON-PUBLIC HOLDINGS

Lereko Metier Capital Growth Fund (represented by P Botha)	12,924,314	60.71
Blackstar Investors Plc (represented by A Bonamour)	8,135,854	38.22
Cooper, L	138,603	0.65
Lehman, J	50,000	0.23
Mokoena, G	40,000	0.19
<b>Total</b>	<b>21,288,771</b>	<b>100.00</b>

## STRATEGIC HOLDINGS (MORE THAN 10%)

Industrial Development Corporation	23,333,333	29.77
Lereko Metier Capital Growth Fund	12,924,314	16.49
Blackstar Investors Plc	8,135,854	10.38
<b>Total</b>	<b>44,393,501</b>	<b>56.64</b>

## SHARE TRUST

The York Timber Organization	48,200	0.06
<b>Total</b>	<b>48,200</b>	<b>0.06</b>