

## APPLICATION OF PRINCIPLES IN KING III

PSG Konsult Limited (“PSG Konsult”) is committed to the principles of transparency, integrity, fairness and accountability as also advocated in the King Code of Governance Principles (“King III”). The table presented below sets out all the principles contained within King III, as well as comments on PSG Konsult’s application of same. This document should be read in conjunction with PSG Konsult’s annual report for the year ended 28 February 2017. This document was updated subsequent to year end to incorporate principles applied to after year end.

PSG Konsult will adopt King IV™ in the next reporting period.

(“The King IV Report on Corporate Governance for South Africa 2016, Institute of Directors Southern Africa” and the IoDSA website link is: <http://www.iodsa.co.za/?page=AboutKingIV>).

The table hereunder illustrates the current status regarding the application of the King III principles:

Key :

Applied ✓

Partially applied ★

Not applicable ✗

Chapter & principle	Application	Progress 2016/2017
<b>Chapter 1 – Ethical leadership and corporate citizenship</b>		
1.1 The board should provide effective leadership based on an ethical foundation	✓	Applied. PSG Konsult is committed to the highest level of corporate governance, integrity and ethics. Ethics forms part of the values of the company and the board. The board provides effective leadership based on an ethical foundation.
1.2 The board should ensure that the company is seen to be a responsible corporate citizen	✓	Applied. Projects for corporate social investments are regularly assessed and the board ensures that the company is a responsible corporate citizen.
1.3 The board should ensure that the company’s ethics are managed effectively	✓	Applied. Ethical principles are always applied during decision-making. The Company has implemented a mechanism to employees to report any perceived and alleged irregular or unethical behaviour in a confidential and controlled environment.
<b>Chapter 2 - Boards and directors</b>		
2.1 The board should act as the focal point for and custodian of corporate governance	✓	Applied. The Board advocates adherence to sound governance principles by all entities in the PSG Konsult Group. A formal Board Charter sets out the power and responsibilities of the Board. The Board is fully functional and leads and controls the Group and all issues of a material or strategic nature, or which can impact the reputation of the Group, is referred to the Board.

2.2 The board should appreciate that strategy, risk, performance and sustainability are inseparable	✓	Applied. Strategy, risk, performance and sustainability are considered collectively by the board in the decision-making process.
2.3 The board should provide effective leadership based on an ethical foundation	✓	Applied. Ethics form part of the values of the company and the board.
2.4 The board should ensure that the company is and is seen to be a responsible corporate citizen	✓	Applied. The board ensures that the company is a responsible corporate citizen and in line with the image the company would like to project.
2.5 The board should ensure that the company's ethics are managed effectively	✓	Applied. Ethics are the responsibility of the board as a whole.
2.6 The board should ensure that the company has an effective and independent audit committee	✓	Applied. The Audit Committee consists of three independent non-executive directors. The responsibilities of the Audit Committee are codified in a mandate by the Board, which is reviewed at least annually. A report by the committee describing how it has discharged its duties is included in the annual financial statements.
2.7 The board should be responsible for the governance of risk	✓	Applied. The Board is ultimately accountable for the Group's risk management process and system of internal control. In terms of a mandate by the Board, the Risk Committee monitors the risk management process and systems of internal control of the Group. The Risk Committee provides feedback to the Board on the effectiveness of the group's risk management processes, at least annually.
2.8 The board should be responsible for information technology (IT) governance	✓	Applied. The board as a whole is responsible for information technology governance in the company.
2.9 The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards	✓	Applied. Compliance with all applicable laws and adherence to non-binding rules, codes and standards form part of the values of the company. Compliance with laws, rules, regulations and relevant codes is integral to the company's risk management process. The Risk Committee is responsible to, inter alia, ensure that an appropriate compliance framework is in place, that non-compliance is reported and to review significant compliance risk matters.
2.10 The board should ensure that there is an effective risk-based internal audit	✓	Applied. An Internal Group Auditor has been appointed who will be performing this function.

2.11 The board should appreciate that stakeholders' perceptions affect the company's reputation	✓	Applied. The board monitors stakeholders' perceptions, in light of the importance of the company's reputation.
2.12 The board should ensure the integrity of the company's integrated report	✓	Applied. Due care is applied during the completion of the integrated report to ensure its integrity. Sufficient controls are in place to ensure relevant, reliable and accurate reporting. Also refer to the external audit and various assurance processes, as reported in the integrated annual report.
2.13 The board should report on the effectiveness of the company's system of internal controls	✓	Applied. Reporting on the effectiveness of the Company's internal controls is included in the Risk Management Report and the Audit Committee Report. The Audit Committee has, inter alia, considered the reports from the external auditors and satisfied itself about the adequacy and effectiveness of the Group's systems of internal control.
2.14 The board and its directors should act in the best interests of the company	✓	Applied. The board acts in the best interests of the company. The Board is evaluated annually by its members. Board members are also required to disclose any potential conflict of interest as and when required.
2.15 The board should consider business rescue proceedings or other turnaround mechanisms as soon as the company is financially distressed as defined in the Act	✓	Applied. This will be considered, if applicable. PSG Konsult has, as part of its risk management framework and monthly internal financial results review, processes in place to timeously identify and address underperforming business units.
2.16 The board should elect a chairman of the board who is an independent non-executive director. The CEO of the company should not also fulfil the role of chairman of the board	★	Partially Applied. We have a lead independent non-executive director, since our chairman is not independent.
2.17 The board should appoint the chief executive officer and establish a framework for the delegation of authority	✓	Applied. The Board has appointed a CEO and a framework for the delegation of power has been established.
2.18 The board should comprise a balance of power, with a majority of non-executive directors. The majority of non-executive directors should be independent	✓	Six of the board members are non-executive directors and four of the six non-executive directors are independent. The majority of the board comprises independent non-executive directors.
2.19 Directors should be appointed through a formal process	✓	Applied. Directors are appointed after a formal assessment and board discussion, following reference and CV checks.

2.20 The induction and ongoing training and development of directors should be conducted through formal processes	★	Partially Applied. The induction of directors is not conducted through a formal process. This has not been necessary to date as new appointees have been familiar with the group's operations and the environment in which the group operates. An induction programme for future appointees will be developed. Directors have unlimited access to the company's resources regarding training and development. Training and development needs are carefully monitored continuously.
2.21 The board should be assisted by a competent, suitably qualified and experienced company secretary	✓	Applied. A competent, suitably qualified and experienced company secretary has been appointed.
2.22 The evaluation of the board, its committees and the individual directors should be performed every year	✓	Applied. A formal evaluation process has been implemented in line with the King III and reported on in the Integrated Report.
2.23 The board should delegate certain functions to well-structured committees but without abdicating its own	✓	Applied. Committees make recommendations which are approved at board level.
2.24 A governance framework should be agreed between the group and its subsidiary boards	✓	Applied. A governance framework together with necessary levels of authority has been approved by the PSG Konsult board.
2.25 Companies should remunerate directors and executives fairly and responsibly	✓	Applied. The board is of the view that directors and executives are remunerated on a basis being fair and reasonable to both the employee and company.
2.26 Companies should disclose the remuneration of each individual director and prescribed officer	✓	Applied. The remuneration of directors is disclosed in the directors' report (included in the annual report).
2.27 Shareholders should approve the company's remuneration policy	✓	Applied. Director remuneration is approved at the AGM each year. The company's remuneration policy is now tabled for a non-binding shareholders' vote at its AGM.
<b>Chapter 3 - Audit committees</b>		
3.1 The board should ensure that the company has an effective and independent audit committee	✓	Applied. The Audit Committee consists of three independent non-executive directors.
3.2 Audit committee members should be suitably skilled and experienced independent non-executive directors	✓	Applied. Finance and Risk Committee members are suitably skilled and experienced. The composition of the Audit Committee is reviewed annually. The Board believes that the current members of the committee are suitably skilled and experienced.

3.3 The audit committee should be chaired by an independent non-executive director	✓	Applied. The Audit committee is chaired by an independent non-executive director.
3.4 The audit committee should oversee integrated reporting	✓	Applied. The Audit Committee is responsible for considering and making recommendations to the Board relating to the Group's integrated annual report and results press releases.
3.5 The audit committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities	✓	Applied. The Audit Committee ensures that a combined assurance model is applied. We have also appointed an internal auditor.
3.6 The audit committee should satisfy itself of the expertise, resources and experience of the company's finance function	✓	Applied. The Audit Committee annually performs a review of the Company's Chief Financial Officer and finance function. Based on such review, the committee has satisfied itself of the appropriateness of the expertise, resources and experience of the Chief Financial Officer and the finance function.
3.7 The audit committee should be responsible for overseeing of internal audit	✓	Applied. An Internal Group Auditor has been appointed who will be performing this function.
3.8 The audit committee should be an integral component of the risk management process	✓	Applied. This forms part of the Audit Committee's role and function.
3.9 The audit committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process	✓	Applied. This forms part of the Audit Committee's role and responsibilities. The Committee has during the period under review nominated independent external auditors, PricewaterhouseCoopers Inc., approved its fee and determined its terms of engagement. The appointment is presented to the shareholders of the Company at the annual general meeting for approval. The Committee is satisfied that the Company's external auditors are independent of the Company and are thereby able to conduct their audit functions without any influence from the Company.
3.10 The audit committee should report to the board and shareholders on how it has discharged its duties	✓	Applied. The Audit Committee provide feedback to the Board at each Board meeting. Reporting to shareholders is given through the Audit Committee Report included in the integrated annual report.
<b>Chapter 4 - The governance of risk</b>		
4.1 The board should be responsible for the governance of risk	✓	Applied. Risk governance is performed by the board.
4.2 The board should determine the levels of risk tolerance	✓	Applied. Risk levels are discussed at board level.

4.3 The risk committee or audit committee should assist the board in carrying out its risk responsibilities	✓	Applied. A separate Risk and Legal Committee assess the group and entity levels risks. A report is then presented at board level.
4.4 The board should delegate to management the responsibility to design, implement and monitor the risk management plan	✓	Applied. The board has delegated to management the responsibility to design, implement and monitor the risk management plan, and management has done so to the satisfaction of the board.
4.5 The board should ensure that risk assessments are performed on a continual basis	✓	Applied. The board performs risk assessments on a continual basis.
4.6 The board should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks	✓	Applied. The Group's risk management process aims to establish an integrated and effective risk management framework where important risks are identified, quantified and managed in order to achieve an optimal risk/reward profile. An integrated approach ensures that risk management is incorporated into the day-to-day operational management processes and therefore allows management to focus on core activities. All risk factors within the current business model are continually monitored.
4.7 The board should ensure that management considers and implements appropriate risk responses	✓	Applied. Responses are monitored and preventative measures implemented to the extent possible.
4.8 The board should ensure continual risk monitoring by management	✓	Applied. Risk-monitoring forms part of planning and decision making and is continuously performed.
4.9 The board should receive assurance regarding the effectiveness of the risk management process	✓	Applied. This occurs at board level. The Risk and Legal Committee reports to the board in this regard.
4.10 The board should ensure that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders	✓	Applied. Disclosed in the annual report and further disclosures are assessed when needed.
<b>Chapter 5 – The governance of information technology</b>		
5.1 The board should be responsible for information technology (IT) governance	✓	Applied. The Board is responsible for IT governance.
5.2 IT should be aligned with the performance and sustainability objectives of the company	✓	Applied. Objectives are aligned.
5.3 The board should delegate to management the responsibility for the implementation of an IT governance framework	✓	Applied. The board discharges this responsibility to the Risk and Legal Committee which oversees IT management and implementation.
5.4 The board should monitor and evaluate significant IT investments and expenditure	✓	Applied. In line with the company's levels of authority, all significant expenditures (including those for IT) are approved by the board.

5.5 IT should form an integral part of the company's risk management	✓	Applied. IT is considered as part of risk management. A business continuity plan has been formalised and tests performed on the back-up and disaster recovery processes.
5.6 The board should ensure that information assets are managed effectively	✓	Applied. The board is comfortable with the current processes and controls. Information security policies are in place throughout the Company regulating, inter alia, the processing and protection of own and third party information.
5.7 A risk committee and audit committee should assist the board in carrying out its IT responsibilities (note 7)	✓	Applied. The Risk and Legal Committee assists the board in carrying out its responsibilities.
<b>Chapter 6 – Compliance with laws, rules, codes and standards</b>		
6.1 The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards	✓	Applied. The board considers compliance with applicable laws, codes, rules and standards and changes thereto.
6.2 The board and each individual director should have a working understanding of the effect of the applicable laws, rules, codes and standards on the company and its business	✓	Applied. The board and each individual director have a working understanding of the effect of the applicable laws, rules, codes and standards on the company and its business.
6.3 Compliance risk should form an integral part of the company's risk management process	✓	Applied. Compliance duly forms part of the risk management process.
6.4 The board should delegate to management the implementation of an effective compliance framework and processes	✓	Applied. This is performed by the Operating Committee which oversees legal and compliance processes, controls and procedures.
<b>Chapter 7 – Internal audit</b>		
7.1 The board should ensure that there is an effective risk-based internal audit	✓	Applied. An Internal Group Auditor has been appointed who will be performing this function. An internal audit framework is current drafted for approval by the Audit Committee. The internal auditor will be responsible to report to the Audit Committee.
7.2 Internal audit should follow a risk-based approach to its plan	✓	Refer to 7.1
7.3 Internal audit should provide a written assessment of the effectiveness of the company's system of internal controls and risk management	✓	Refer to 7.1
7.4 The audit committees should be responsible for overseeing internal audit	✓	Refer to 7.1
7.5 Internal audit should be strategically positioned to achieve its objectives	✓	The internal audit function is independent from management with access to the Audit Committees and senior management. An internal audit charter was approved in 2016.

Chapter 8 – Governing stakeholder relationships		
8.1 The board should appreciate that stakeholders' perceptions affect a company's reputation	✓	Applied. The board monitors stakeholders' perceptions in light of the importance of the company's reputation.
8.2 The board should delegate to management to proactively deal with stakeholder relationships	✓	Applied. Stakeholder relationships are critical for the company and performed by the executive team.
8.3 The board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interests of the company	✓	Applied. All stakeholders are considered during decision-making.
8.4 Companies should ensure the equitable treatment of shareholders	✓	Applied. Equitable treatment of shareholders is important and considered during decision-making.
8.5 Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence	✓	Applied. Communication with stakeholders is the responsibility of the board. Our engagement with stakeholders is conducted in a transparent, balanced and truthful manner.
8.6 The board should ensure that disputes are resolved as effectively, efficiently and expeditiously as possible	✓	Applied. The board is informed of any disputes to ensure speedy and effective resolutions.
Chapter 9 – Integrated reporting and disclosure		
9.1 The board should ensure the integrity of the company's integrated report	✓	Applied. Due care is applied during the compilation of the integrated report to ensure its integrity.
9.2 Sustainability reporting and disclosure should be integrated with the company's financial reporting	✓	Applied. The company reports on sustainability matters as part of the integrated report.
9.3 Sustainability reporting and disclosures should be independently assured	★	Partially applied. The board have constituted a Social & Ethics Committee that consists of two independent non-executive directors of the board, the CEO and COO of the company. The Social and Ethics committee is responsible for driving sustainability imperatives in the business, including disclosure and reporting on these matters. The integrity of non-financial disclosure is verified through internal audit and management reporting processes.  The group at present has not sought independent assurance on sustainability reporting and disclosure beyond BBBEE certification.