

Application of principles in King IV

The King IV report is also available on the Company's website at www.afdawn.co.za

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Principle 1: The governing body should lead ethically and effectively.

King IV requirements	Afdawn Status	Comments / Actions
Integrity is considered to be a cornerstone of how Afdawn does business.	<p>The board members creed is to do all things in the best interests of the company.</p> <p>Everything that is done is done in good faith.</p> <p>Conflicts of interests are declared and noted in minutes of meetings.</p> <p>Board members are ethical and do not merely conform with legal compliance.</p> <p>There is a Code of Business Principles and Ethics policy to be reviewed by the Social and Ethics Committee.</p> <p>The Social and Ethics committee reports incidents to the board as and when required.</p>	<p>The Social and ethics Committee is in the process of implementing a number of policies that relate to the ethical conduct for all employees and the board. These include "Facilitation and Extortion Payments", "Anti-Bribery and Corruption" Preferential Procurement and Enterprise Development" "Gifts, Hospitality and Sponsorship".</p> <p>Ethical issues are dealt with immediately with zero tolerance.</p>
The governing body members are competent to deal with the challenges faced by the company.	Members of the board are particularly diligent and when necessary weekly meetings are held by phone to ensure that all the directors know what the situation is at all times. A great deal of e-mail also keeps directors up to speed as well as a WhatsApp group.	The challenges have been difficult but the board has been tenacious in ensuring that they are dealt with.
The commitment and dedication of the governing body members demonstrates that they take responsibility for the oversight and management of the organisation is significant.	The executives have gone way beyond the call of duty to ensure that the company has been cleaned up and is now ready for a new strategy. When circumstances have resulted in deals failing, other avenues have been followed to ensure the long term sustainability of the organisation.	
Governing body members are accountable to all the key stakeholders and demonstrate their commitment to this.	The governing body takes its responsibilities seriously and have done so in particular in the past year in relation to the regulators and SARS.	
The governing body members ensured fairness in relation to the current key stakeholders with long term sustainability in mind.	The key stakeholders including customers, regulators, employees and shareholders have all been taken into account to ensure that they are treated fairly in difficult circumstances in order to ensure the long term sustainability of the organisation.	
In order to keep all stakeholders informed regular SENS are sent out when events warrant it to be as transparent as possible.	<p>There have been a number of SENS sent out in the past year.</p> <p>Other reporting has been done in the AFS.</p>	An integrated report will be produced as soon as funds are available to do so.

Principle 2: The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.

The governing body needs to walk the talk in relation to ethics.	The business model is based on ethical principles and fairness to customers to assist them with responsible lending.	Ethics breaches are reported to the social and ethics committee who inform the governing body as necessary.
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Principle 3: The governing body should ensure that the organisation is and is seen to be a responsible citizen.

The governing body needs to comply with laws, regulations and standards and codes.	The governing body and its committees take responsibility to ensure that all the statutory matters are complied with to the best of their ability.	A concerted effort to comply has been in place despite economic constraints.
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Application of principles in King IV continued

<p>The governing body needs to ensure that the organisations' core purpose, values, strategy and conduct are aligned to being a good corporate citizen.</p>	<p>The organisation has had significant challenges from a business perspective and the strategy has had to change to meet difficult circumstances over the last few years.</p>	
<p>The governing body needs to oversee and monitor the consequences of activities and outcomes in relation to:</p> <ul style="list-style-type: none"> • Workplace • Economy • Society • Environment 	<p>The economic constraints mean that employees and executives have not received remuneration that is fair. This will be addressed once the business is on a more stable footing.</p> <p>The other key constraint has been the long time it took to obtain a settlement from SARS as it was difficult to take the business forward with the uncertainty this created. The customers are treated fairly and in terms of statute. The economy has also been a slight constraint as it means customers struggle to repay loans.</p> <p>Environmental outcomes are not significant to the company.</p>	<p>The SARS settlement has now opened opportunities to allow funding and a significant improvement in future results. This will mean that all aspects will be able to be reviewed in the future, in particular to the management and employee remuneration.</p>

Strategy, Performance and Reporting

Principle 4: The governing body should appreciate that the organisations' core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value reation process.

<p>The governing body is responsible for performance and strategy taking into account risks and circumstances.</p>	<p>The company has been in a difficult and cash strapped state since the previous governing body was removed. The assets were initially perfected and have now been sold. The SARS claim meant that investors were not interested in funding a company that was not performing and deals could not be closed as funding could not be provided.</p> <p>The Knife Capital deal that was to provide funding to the parties was a problem for all involved as they did not receive the funding that was anticipated.</p> <p>Value has been destroyed over time as the compromise took ten years to be resolved. Despite cost cutting at Elite and at corporate office, without funding Elite has been breaking even and could not improve profits in line with its potential.</p> <p>The company will now need to pay the compromise off by February 2019 and concurrently develop the strategy that will pay all debts owing and return value to the shareholders.</p>	<p>The governing body has had a challenge to sell the assets and keep the company liquid. The opportunity now exists to create value.</p> <p>The management below the governing body are now the Elite management and they have gone to great lengths in difficult times to ensure the company remains sustainable.</p>
<p>The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the of the organisation's performance, and its short, medium and long term prospects.</p>	<p>The key reporting in the last few years was the Annual Financial Statements, published SENS documents and circulars.</p> <p>With the clean up and liquidation of assets and deals that have been structured and some which have failed, the governing body now believes that the company is in a position to move the strategy forward.</p>	<p>An integrated report will be produced as soon as funds are available to do so.</p>
<p>The oversight and performance including general viability and reliance and effects of capitals, the solvency and going concern have been challenging.</p>	<p>The governing body and in particular the executives have made personal sacrifices to ensure the long term sustainability, solvency, liquidity and going concern status has been maintained in difficult conditions.</p>	<p>The audit report has had material uncertainties relating to going concern for the past two years. The way forward is a great deal clearer now that the SARS settlement has been made.</p>

Application of principles in King IV continued

Strategy, Performance and Reporting

Principle 5: 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.

There is oversight over the Annual Financial Statements and meeting of standards as required.

There have been some challenges in relation to disclosure in terms of IFRS and JSE requirements which have received attention. The governing body has been somewhat constrained in not being able to bring in experts when funds have been tight but are committed to comply with all requirements.

The executives and audit committee understand the responsibility to comply and are committed to put effort into this aspect of reporting.

SENS are used to inform the public of key events that occur.

The King IV evaluation is disclosed to demonstrate compliance thereof.

Governance Structures and Delegation

Principle 6: The governing body should serve as the focal point and custodian of corporate governance in the organisation.

The governing body should demonstrate leadership and strategic direction, approve policy and planning and oversee monitoring of implementation and execution by management and ensure accountability and reporting disclosure.

The governing body has had a difficult task as their role often consisted of bringing a distressed company back on its feet. This was complicated by the SARS settlement that has now been resolved and is in the process of being paid. Monthly payments will be made to February 2019.

The AFS note the number of meetings held by the governing body.

Composition of the governing body.

Principle 7: The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities effectively.

The governing body is responsible to ensure that governance is in place by ensuring that the composition facilitates the oversight and governance role of the board as a whole.

The governing body takes responsibility for ensuring that there is an appropriate balance of power and skills and experience with in the board members to provide the best possible governance environment without having unlimited resources to attract or retain a large number of directors. The Chief executive officer is also the acting Chairman as funding is limited. The CFO is appointed to the board and there are three independent board members. The directors have a rotation policy in place that ensures that the shareholders vote on reappointment on a scheduled basis. The three independent board members are all on the Audit Committee and the Remuneration Committee.

Conflicts are noted and minuted in meetings. If the need arose, a board member would be recused from discussions where they could be conflicted. Board members are informally evaluated for independence. There are no board members that have served longer than nine years.

Two of the board members are female. At this point no race diversity exists but a target of 30% is envisaged by 2020.

There is disclosure in the financial statements covering information in relation to the directors.

Application of principles in King IV continued

Committees of the governing body

Principle 8: 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>Delegation of responsibilities are allocated to the board and executives and to the Audit and Risk, Remuneration and Social and Ethics Committee.</p>	<p>There is Board Charter delegating roles and putting committees in place. The Committees have charters setting out their responsibilities. There is no nominations committee and once the size of the company increases this will be implemented. The three independent board members have been committed to seeing out the difficult times the company has been through.</p> <p>The Social and Ethics committee has an independent director and executives as members.</p> <p>With a small board the cross-membership of the committees is in place.</p> <p>There is a balanced distribution of power and no one individual is able to dominate the other governing body members.</p> <p>There is an Audit Committee report in the Annual Financial Statements setting out their role, responsibility and focus.</p>
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Evaluations of the performance of the governing body

Principle 9: The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.

<p>The governing body should evaluate the performance of the independent and executive members.</p>	<p>An informal evaluation of the governing body members is done annually. A discussion is held at the Remuneration committee meeting and any issues would be raised with the individuals should this become necessary. Once the company grows it will be necessary to review this process and put formal processes in place.</p>
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Appointment and delegation to management

Principle 10: 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.

<p>The governing body Appoints the CEO.</p> <p>The CEO is accountable to the governing body.</p> <p>He is not a member of the Audit and Risk or Remuneration committee but attends the audit and risk committee meetings together with the CFO.</p>	<p>When the previous CEO left the current CEO took over the role as a temporary measure. He has since also been appointed acting Chairman. This was necessary due to the fact that it was necessary to reduce costs and clean up the business units.</p>	<p>Once the company is back on track with sufficient funding and income stream this situation will be reviewed.</p>
<p>The governing body should ensure it has access to professional and independent guidance on governance and legal duties.</p>	<p>Statucor has been engaged to perform the company secretarial duties of the company, the sponsor is PSG and a firm of lawyers assist with legal aspect of the company.</p>	

Application of principles in King IV continued

Governance Functional Areas – Risk Governance

Principle 11: The Governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.

<p>The governing body should assume responsibility of risk by setting direction for how risk should be approached and addressed in the organisation.</p>	<p>The risk governance encompasses both the risk and opportunities when developing strategy and the potential positive and negative aspects thereof.</p> <p>With the company having been through extremely trying times since the removal of the previous directors and the sale of the assets that were perfected when the loans were not paid the key risks have related to resolving the challenges that remained, repayment of debt, the SARS compromise and looking for opportunities to grow the business.</p> <p>Key risks that were always in the business plan related to financial risks in the Elite business and the going concern and long term sustainability of the company.</p>	<p>The governing body is of the opinion that now that the key challenges are now being resolved there are new opportunities that were not available while the uncertainty of the SARS compromise was still being sought.</p>
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Governance Functional Areas - Technology

Principle 12: The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.

<p>The governing body should assume responsibility for the governance of technology and information by setting the direction and approach of addressing IT in the organisation.</p>	<p>The use of technology is key to the business models that have been part of the business in the past few years. It is part of the strategy and has been used effectively.</p> <p>The board has been kept up to date on the development and success of the IT used in its subsidiaries. There has been substantial IP embedded in IT. The management and governance of IT has been a big part of the responsibility of the executives in the subsidiaries.</p>	<p>IT set up and how it is managed. Once the company grows it will be necessary to implement even more stringent IT governance into the group.</p>
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Compliance Governance

Principle 13: 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>The governing body has been committed to ensuring that compliance is adhered to.</p>	<p>The organisation does not have an internal audit function and once it is large enough will reconsider this. However, the company secretary and JSE sponsor and lawyers have been used to obtain advice and ensure compliance has been adhered to. In addition the subsidiaries have had the responsibility of ensuring that they comply with all the rules, regulations and codes that were required of them. The company now in the process of ensuring that King IV is also complied with.</p>	
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Application of principles in King IV continued

Remuneration Governance

Principle 14: The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote achieve the achievement of strategic objectives and positive outcomes in the short, medium and long term.

The governing body should assume responsibility for the governance of remuneration by setting the direction for how remuneration should be approached and addressed on an organisation-wide basis.

The governing body has a Remuneration Committee that takes responsibility for the remuneration of the company.

As the company has had significant challenges to overcome in order to ensure long term sustainability remuneration and proper incentivisation of employees has not been possible. Employees have forgone increases for a number of years.

Executives have adjusted their remuneration to ensure that the company cashflow was not compromised. Once the company is back on a profit making path this will be reviewed. The details are included in the Annual Financial Statements.

Assurance

Principle 15: 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.

The governing body should assume responsibility for assurance by setting the direction concerning the arrangements for assurance services and functions.

Although a combined assurance model is in early stages of implementation the governing body has ensured that the auditors, sponsors, the company secretary and experts where necessary have been employed to ensure that appropriate assurance is given on key aspects of reporting of information to the stakeholders.

Once internal audit is affordable it will be introduced by the governing body.

Stakeholders

Principle 16: 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 material stakeholders in the best interests of the organisation over time.

The governing body should set the direction of how stakeholders should be approached and conducted in the organisation. It is required to delegate, have oversight of and report on its stakeholder focus.

The governing body supports a stakeholder approach and in addition to its shareholders focusses on other key stakeholders including its customers who are part of the communities it serves, the regulators and employees. The governing body endeavours to ensure that it treats all stakeholders fairly and with integrity. Once the company is fully back on a profitable footing consideration will be given to additional social responsibility issues.

The formulation of a more in depth framework needs to be developed to formalise a process that demonstrates all the key aspects our stakeholder approach. This is currently under consideration.

Conclusion: The governing body subscribes to the principles of King IV and believe that the company is on an appropriate journey to constantly improve and comply more fully with the requirements of King IV.