

**DigiCore**  
Holdings Ltd



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## INTRODUCTION

As corporate governance and sustainability are essential for DigiCore's stakeholders, the board of directors aspires to conduct the group's business with responsibility, accountability, fairness and transparency and strives to be a good corporate citizen.

The directors agree with the spirit and principles of corporate governance set out in the King Report on Governance in South Africa (2009) (King III) (refer to table below for compliance assessment). The board is committed to applying appropriate corporate governance policies and practices in each company in the group.

The group maintains a listing on the JSE Limited which mandates certain disclosure requirements on corporate governance and DigiCore complies in all material aspects to the regulations and codes of the exchange.

## IMPROVEMENTS DURING THE PAST YEAR AND PLANS FOR THE YEAR AHEAD

A board charter which formalises its processes and procedures was adopted during the year under review.

The mix of executive versus non-executive board members was improved with the appointments of Mr Gerhard Pretorius (former Reunert CEO) as an independent non-executive director and Advocate Jacob Wiese as a non-executive director.

The impact of the new Companies Act (No 71 of 2008) was assessed and the required compliance is being pursued as appropriate. A training session on the implications of the new act was held for the board in April 2011.

## Compliance with King III was assessed and results are shown below:

CHAPTER	GOVERNANCE ELEMENT	STATUS	SUMMARY OF FINDING	ACTION STEPS FOR CONTINUOUS IMPROVEMENT
1	Ethical leadership and corporate citizenship	●	No major finding	Code of ethics established and continuously communicated.
2	Board of directors	●	No major finding other than described below. On 1 July 2011 Mr N Vlok retired as CEO and was appointed non-executive chairman of the group. Mr Vlok is by definition not independent which conflicts with King III. The DigiCore board carefully considered this conflict versus the significant value contributed by Mr Vlok that will be lost by his non-involvement in the group. The board confirmed that the industry places significant value on a track record and relationships established over many years.	Performance evaluations of the board and individual directors will be conducted under the leadership of the chairman.
3	Audit and risk committee	●	No major finding	The committee extended invitations to relevant executive directors to ensure responsibility is taken for reported areas of non-compliance.
4	Governance of risk	●	The current risk management framework should be more integrated and aligned to industry best practice.	At the request of the audit and risk committee, DigiCore has initiated a project to ensure that a new integrated risk management framework is designed and implemented across the group. The new framework will be supported by best-practice enabling technology that includes the ability to monitor all risks, including risks related to compliance and information technology.
5	Governance of information technology (IT)	●	The findings relate to: <ul style="list-style-type: none"> <li>The board not being sufficiently involved in IT strategy and governance.</li> <li>IT risk being managed in a fragmented manner.</li> <li>The board not being sufficiently involved in the acquisition and disposal of IT goods and services.</li> </ul>	The new integrated risk management framework will include management of all IT risks. A CIO was appointed to take oversight responsibility for IT.
6	Compliance with laws, rules, codes and standards	●	The board strives to ensure compliance with laws and regulations and accordingly DigiCore has adopted a compliance policy. The status of compliance with this policy has not been assessed	External assurance on compliance was under way at the time of preparing this report.
7	Internal audit	●	No significant findings	Aligning the objectives of internal audit and operations will be promoted.
8	Governing stakeholder relations	●	Current stakeholder relations policies need to be reviewed by the board. The integrated report should also disclose the nature and outcome of DigiCore's dealings with stakeholders.	The 2011 annual report will be prepared as an integrated report, taking into account stakeholder expectations.
9	Integrated reporting and disclosure	●	No major findings	The 2011 annual report will be the first to be prepared as an integrated report in line with King III recommendation. A sustainability and assurance steering committee will be established, meeting at least quarterly to discuss: <ul style="list-style-type: none"> <li>Material issues and their communication to the board</li> <li>Regulatory changes that may impact the nature of reporting to stakeholders</li> <li>The scope of external reporting and assurance.</li> </ul>

● Fully compliant, continuous improvement will be pursued.

● Compliant with improvements due in a short term and thereafter continuous improvement will be pursued.

## BOARD OF DIRECTORS

### Composition of the board

The board comprises six executive and eight non-executive directors, which ensures a balance of power and authority so that no one director has unfettered powers of decision-making. The majority of the non-executive directors are independent.

### Operation of the board

The board collectively determines the major policies and strategic direction of the group and retains full and effective control of the group. The implementation of these strategies is delegated to the executive committee, which oversees part of the day-to-day running of the group, and is monitored by the board.

The board has also delegated some duties to sub-committees that report to the board regularly.

Non-executive directors ensure the group's interests are served by bringing impartial views that are separate from management.

The functions of the chairperson and chief executive officer are separate, with segregated duties. The chairperson is a non-executive director and is assisted by a lead independent director. The chairman provides guidance to the board as a whole and ensures the board is efficient, focused and operates as a unit. He acts as facilitator at board meetings to ensure a flow of opinions and leads discussions to optimal outcomes in the interests of good governance. The appraisal of the chief executive officer's performance has been delegated to the remuneration committee.

The company secretary is responsible for guiding the board on discharging its responsibilities in terms of the legislative and regulatory requirements of the relevant jurisdictions.

The directors have unlimited access to the advice and services of the company secretary. The company secretary plays an active role in the company's corporate governance and business ethics processes, and ensures that, in accordance with pertinent laws, the proceedings and affairs of the board, the company itself and, where appropriate, shareholders are properly administered. The directors may also seek professional advice with any related cost borne by the company.

### Board appointment and evaluation

The nomination of new directors is discussed between non-executive directors and the CEO before the candidate is put forward to the board. A résumé is circulated to the board to consider the suitability of the nominee and the board, as a whole, appoints the director. Newly appointed directors must resign and stand for election at the first annual general meeting following their appointment. New appointments to the board are therefore done in a formal and transparent manner.

Non-executive directors do not hold service contracts with the company.

New directors are inducted in an orientation programme to understand the group's operations and the business environment in which it operates.

Training on fiduciary duties and responsibilities is left up to the individual director, but any relevant changes in legislation or regulations are brought to each director's attention. Directors are encouraged to become members of professional bodies to gain knowledge and interact with peers.

All executive directors are members of the Institute of Directors. Directors resign every three years by rotation and are re-elected by shareholders at the annual general meeting to facilitate board continuity.

### Meetings and attendance

The board meets five times or more a year. Board packs, including an agenda, are distributed prior to the meeting and include relevant information so that directors can be prepared and make informed decisions. Directors may add items to the agenda.

Directors are encouraged to attend all meetings and a schedule is circulated on proposed dates at beginning of the year. The number of meetings held and attendance by each director since the last annual report are detailed on the right.

### Dates and attendance of board meetings:

	24/11/2010	03/02/2011	05/04/2011	23/06/2011	06/09/2011
NA Gasa (chairman to 23/6/2011)	√	√	√	√	√
SR Aberdein	√	√	√	√	√
D du Rand	√	√	√	√	√
BC Esterhuyzen	√	√	√	√	√
BS Khuzwayo	√	√	√	√	Apology
B Marx	√	√	√	√	√
LG Msengana- Ndlela	Apology	√	√	Apology	√
SS Ntsaluba	√	Apology	√	Apology	√
G Pretorius	-	-	-	√	√
MD Rousseau	√	√	√	√	√
FJ Schindehütte	√	√	√	√	√
JP Verster	-	-	-	√	√
NH Vlok (chairman from 6/9/2011)	√	√	√	√	√
JD Wiese	-	√	√	√	√

### BOARD SUB-COMMITTEES

Certain duties of the board have been delegated to sub-committees to give more detailed attention to specific areas and to better channel the board's expertise.

#### Audit and risk committee

Under its chairman, Professor Ben Marx, the committee successfully completed its duties and added significant value to the group. The charter of the audit and risk committee was amended in line with changes in the Companies Act and was adopted by the board of directors. A self-assessment concluded that the committee was successful in discharging its duties.

The outsourced internal audit function continues to operate under the supervision and control of the committee and successfully conducted its work in accordance with the approved three-year risk-based plan. Risk management remains a priority and regular assessments are carried out, mitigation strategies and action plans formulated and reported on by the responsible executive directors. The top risks facing the organisation, together with mitigation strategies, are reported to the board of directors.

The whistle-blowing policy is still current and regular reminders are sent to all staff. No incidents of fraud or corruption were reported during the review period.

An IT risk assessment was conducted during the year and plans are under way to address risks identified. This has resulted in a chief information officer appointment, with both the chief technology officer and the chief information officer becoming standing invitees to committee meetings.

Mr Gerrit Pretorius has joined the committee and replaces Advocate Vusi Khuzwayo who is now chairing the social and ethics committee as required by the Companies Act.

#### Dates and attendance of audit and risk committee meetings:

	03/02/2011	05/04/2011	23/06/2011	06/09/2011	10/09/2011 Special meeting
B Marx (chairman)	√	√	√	√	√
BS Khuzwayo	√	√	√	Apology	-
SS Ntshaluba	Apology	√	√	√	√
G Pretorius	-	-	-	-	√

The chairman of the board, chief executive officer and group financial director, as well as representatives from the internal and external auditors attend the committee meetings as invitees.

#### Remuneration committee

The committee currently comprises one executive and two non-executive directors. An independent non-executive director chairs the meeting. The CEO is a member of the committee, but is recused when his remuneration is discussed. The committee advises the board on executive remuneration policies and the annual review of remuneration packages, profit share paid and issuing share options to executive directors and senior management.

#### Dates and attendance of remuneration committee meetings:

	03/02/2011	23/06/2011	06/09/2011
NA Gasa (chairman)	√	√	√
NH Vlok	√	√	√
SS Ntshaluba	Apology	√	√

*Note: G Pretorius appointed chairman from 06 September 2011.  
NA Gasa to remain on committee as a member.*

In line with King III's principle of 'apply or explain', we have identified an area of non-compliance in disclosing remuneration for the three highest-paid executives. After due consideration, the board believes it would be detrimental to DigiCore's business to disclose this information, given the competitive nature of our industry and shortage of sector-specific senior skills.

#### Social and ethics committee

In line with the Companies Act, a social and ethics committee has been established under chairmanship of Advocate Vusi Khuzwayo and members Nick Vlok and Jacob Wiese. The committee will take over the responsibilities of the transformation committee and will deal with the responsibilities as described by Companies Act regulations.

#### CONFLICTS OF INTEREST

DigiCore has adopted a formal code to ensure directors are free of conflicts of interest between their obligations to the company and their private interests. Any interests in contracts with the company must be formally disclosed and documented.

#### INTERNAL CONTROL AND RISK MANAGEMENT

The company has a system of internal controls, based on the group's policies and guidelines, in all subsidiaries and associates under its control. External auditors consider elements of the internal control systems as part of their audit and communicate deficiencies when

identified. The group's internal controls and systems are designed to provide reasonable assurance on the integrity and reliability of the financial statements; to safeguard, verify and maintain accountability of its assets; and to detect fraud, potential liability, loss and material misstatement, while complying with applicable law and regulations.

Risks are reported in the form of a risk register completed by the managing executive of each business unit. All risks are rated and range from extreme to low, based on an assessment of the likelihood and consequence of the risk. Extreme and high risks identified are reviewed by the executive committee and a final list of significant risks are reported to the audit and risk committee and ultimately to the board.

#### The following are deemed to be DigiCore's significant risks:

RISK	STRATEGY
European Community debt crisis	Monitor economic developments worldwide Proactively position business interests in territories to minimise impact
African labour, political and socio-economic risks	Vigilantly monitor activities and proactively position business interests
Credit risk	Re-engineer receivable cycle end to end Appointment of specialist to improve and monitor processes
Key staff retention	Pay market-related remuneration Implement performance-based short-term incentives Implement share incentive scheme participation
BEE rating	Continuous improvement in BEE, including establishment of new empowered entity Crack Msanzi
Technology risks	Continued investment in research and development Establishment of 'blue-sky' team focusing on market intelligence and future developments
Natural disaster, destruction of IT centre	Establishment of disaster recovery site
Competitor price pressure	Alignment of product offering to match consumer demand Focus on customer retention Acquisition of complementary companies Offer superior product, appropriately priced Monitor national and international markets for new entrants

#### GOING CONCERN

The board believes the group has adequate resources to continue its business as a going concern for the year ahead. The financial statements have therefore been prepared on the going-concern basis as detailed in the directors' report.

#### CLOSED PERIODS

No director or employee with access to price-sensitive information may trade in company shares between the date of the end of a reporting period and the date of publishing results for that period, or in periods where the company is trading under cautionary announcement.

Procedures have been implemented to prohibit share dealings during closed periods.

#### CODE OF CONDUCT AND ETHICS

The group is committed to the highest standards of honesty, organisational integrity and ethical behaviour in all its dealings. Its directors and employees are required to maintain the highest ethical standards which, in all reasonable circumstances, are above reproach. Conduct that violates these principles may constitute grounds for disciplinary action or even dismissal.

The group has established a formal code of ethics and business conduct and has communicated the code to all staff and published it on the group website.

Staff members dealing with security matters of customers in the group are regularly required to take polygraph tests.

The new social and ethics committee will assess the effectiveness of the code of conduct and ethics and implement changes in an attempt to continuously improve.

#### COMPANY SECRETARY

Donald Nieuwoudt has been company secretary since April 2005. He is a qualified chartered accountant (SA) and has extensive experience in the company secretarial and corporate governance arenas. Donald attends regular seminars to keep abreast of changing legislation and requirements and fulfils the requirement of continuing professional education in accordance with the South African Institute of Chartered Accountants.

#### SPONSOR

The company's sponsor is PSG Capital.

#### LEGAL COMPLIANCE

The company secretary and chief financial officer, together with key management, compile a list of all applicable legislation and confirm compliance. Under the guidance of the audit and risk committee, a project aimed at external assurance on legal compliance has been initiated and will be reported on in future.

No fines or non-monetary sanctions have been imposed on the group for non-compliance with any laws or regulations to date.

#### LABOUR RELATIONS

Wage earners are members of the Metal and Engineering Industries Bargaining Council.

No salaried staff are members of any trade union.





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