

# MICROmega

HOLDINGS LIMITED

## CORPORATE GOVERNANCE

Analysis of the application of the 75 corporate governance principles as recommended in the King III Report

No.	Area	Requirement	Status	Comments
<b>1. Ethical Leadership and Corporate Citizenship</b>				
1.		<b>1.1</b> The Board should provide effective leadership based on an ethical foundation	<b>Applied</b>	The Board comprises of suitably qualified and experienced Directors to effectively lead MICROmega. The Board's leadership is based on ethical values of responsibility, accountability, fairness and transparency. Management have implemented a comprehensive ethics policy as a basis for the company values.
2.		<b>1.2</b> The Board should ensure that the company is and is seen to be a responsible corporate citizen	<b>Applied</b>	MICROmega's Board of Directors considers non-financial factors that affect the company. The company also takes part in a number of measurable corporate social investment programmes through the Group. All activity is disclosed in the integrated report annually.
3.		<b>1.3</b> The Board should ensure that the company's ethics are managed effectively	<b>Applied</b>	MICROmega has a social and ethics committee which is responsible for monitoring the ethics of the Group, as well as promoting social and ethical aspects of business within the organisation. The Board oversees this committee to ensure that ethics are managed effectively.

2. Boards and Directors				
4.	<b>Role and Function of the Board</b>	<b>2.1</b> The Board should act as the focal point for and custodian of corporate governance	<b>Applied</b>	There is an approved Board Charter which forms the basis of the Board's responsibilities and duties. The Directors are aware of and practice their fiduciary duties.
5.		<b>2.2</b> The Board should appreciate that strategy, risk, performance and sustainability are inseparable	<b>Applied</b>	Financial and non-financial matters are considered by the Board when developing and implemented company strategy. The strategy is aligned with the purpose of the company to ensure sustainable outcomes.
6.		<b>2.3</b> The Board should provide effective leadership based on an ethical foundation	<b>Applied</b>	Refer 1.1
7.		<b>2.4</b> The Board should ensure that the company is and is seen to be a responsible corporate citizen	<b>Applied</b>	Refer 1.2
8.		<b>2.5</b> The Board should ensure that the company's ethics are managed effectively	<b>Applied</b>	Refer 1.3
9.		<b>2.6</b> The Board should ensure that the company has an effective and independent audit committee	<b>Applied</b>	Refer 3.1
10.		<b>2.7</b> The Board should be responsible for the governance of risk	<b>Applied</b>	Refer 4.1
11.		<b>2.8</b> The Board should be responsible for information technology (IT) governance	<b>Applied</b>	Refer 5.1
12.		<b>2.9</b> The Board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards	<b>Applied</b>	Refer 6.1
13.		<b>2.10</b> The Board should ensure that there is an effective risk-based internal audit	<b>Applied</b>	Refer 7.1
14.		<b>2.11</b> The Board should appreciate that stakeholders' perceptions affect the company's reputation	<b>Applied</b>	Refer 8.1
15.		<b>2.12</b> The Board should ensure the integrity of the company's integrated report	<b>Applied</b>	Refer 9.1

16.		<b>2.13</b> The Board should report on the effectiveness of the company's system of internal controls	<b>Applied</b>	Refer 7.1-7.5 and 9.1-9.3
17.		<b>2.14</b> The Board and its Directors should act in the best interests of the company	<b>Applied</b>	MICROmega Directors are aware of their fiduciary duties and always act in the best interest of the company.
18.		<b>2.15</b> The Board should consider business rescue proceedings or other turnaround mechanisms as soon as the company is financially distressed as defined in the Act	<b>Noted</b>	The Board continuously monitors whether the company is financially distressed for the purpose of considering business rescue proceedings.
19.		<b>2.16</b> 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. A Lead Independent Director should be appointed in the case where an Executive Chairman is appointed or where the Chairman is not independent or conflicted.	<b>Applied</b>	Mr DC King is the Executive Chairman of MICROmega. A Lead Independent Non-Executive Director, Mr AB Swan, has been appointed.
20.		<b>2.17</b> The Board should appoint the Chief Executive Officer and establish a framework for the delegation of authority	<b>Applied</b>	Mr IG Morris is the Chief Executive Officer of MICROmega. There is an approved delegation of authority within the organisation.
21.	<b>Composition of the Board</b>	<b>2.18</b> The Board should comprise a balance of power, with a majority of non-Executive Directors. The majority of non-Executive Directors should be independent	<b>Applied</b>	MICROmega's Directorate consists of a majority of Non-Executives with three out of the six being independent.
22.	<b>Board appointment process</b>	<b>2.19</b> Directors should be appointed through a formal process	<b>Applied</b>	Directors are appointed by the Board. MICROmega has an approved policy which details the procedures for appointments to the Board of Directors.

23.	<b>Director developments</b>	<b>2.20</b> The induction of and on-going training and development of Directors should be conducted through formal processes	<b>Explain</b>	Although this process has not been formalised by the Board, internal development of Directors occurs continuously. Directors are encouraged to identify and attend training courses where necessary.
24.	<b>Company secretary</b>	<b>2.21</b> The Board should be assisted by a competent, suitably qualified and experienced company secretary	<b>Applied</b>	The company secretarial duties have been outsourced to Acorim (Pty) Ltd. Acorim has experience in providing public and private companies with outsourced company secretarial duties.
25.	<b>Performance assessment</b>	<b>2.22</b> The evaluation of the Board, its committees and the individual Directors should be performed every year	<b>Explain</b>	The CEO is responsible for communicating and addressing any concerns which are brought to his attention in respect of the management and performance of the Board and the individual Directors.
26.	<b>Board committees</b>	<b>2.23</b> The Board should delegate certain functions to well-structured committees but without abdicating its own responsibilities	<b>Applied</b>	The Social and Ethics Committee, Risk Committee, Audit Committee and Remuneration Committee are Board committees within the organisation. Although certain of the Board's responsibilities are delegated to the Committees, the Board does not abdicate its own responsibilities.

27.	Group Boards	<b>2.24</b> A governance framework should be agreed between the Group and its subsidiary Boards	<b>Applied</b>	MICRO <i>Omega</i> respects the fiduciary duties of the Director serving in a representative capacity on the Boards of the subsidiaries. The Board monitors compliance with King III, the JSE Listings requirements and the Companies Act, 2008 on an on-going basis. This forms the basis of comprehensive policies which have been implemented within the organisation to promote good governance.
28.	Remuneration of Directors and senior Executives	<b>2.25</b> Companies should remunerate Directors and Executives fairly and responsibly	<b>Applied</b>	Directors' remuneration is considered to be market related and is approved by the Remuneration Committee in accordance with the remuneration policy.
29.		<b>2.26</b> Companies should disclose the remuneration of each individual Director and certain senior Executives	<b>Applied</b>	All MICRO <i>Omega</i> Directors' remuneration is disclosed in the Annual Integrated Report. MICRO <i>Omega</i> do not have any prescribed officers.
30.		<b>2.27</b> Shareholders should approve the company's remuneration policy	<b>Applied</b>	A resolution is included in the notice of the Annual General Meeting for shareholders to approve the remuneration policy.
<b>3. Audit committees</b>				
31.		<b>3.1</b> The Board should ensure that the company has an effective and independent audit committee	<b>Explain</b>	The Committee has been effective in performing its mandate. The Board is currently in the process of deciding upon a suitable Independent Non-Executive to fulfil the role of Audit Committee chairperson.
32.	Membership and resources	<b>3.2</b> Audit committee members should be suitably skilled and experienced independent non-Executive Directors	<b>Explain</b>	The current Audit Committee comprises 5 Non-Executive

				Directors, 3 of which are independent. The Non-Executive Directors are adequately skilled and experienced.
33.		<b>3.3</b> The audit committee should be chaired by an Independent Non-Executive Director	<b>Explain</b>	The Board is aware of the non-compliance in the composition of the Audit Committee and is currently in the process of deciding upon a suitable Independent Non-Executive Director to fulfil the role of Audit Committee Chairperson. This appointment will be made at the next Board meeting.
34.	<b>Responsibilities of the audit committee</b>	<b>3.4</b> The audit committee should oversee integrated reporting	<b>Applied</b>	The Audit Committee oversees the integrated reporting process. The Audit Committee reviews and comments on the financial statements and sustainability areas that are disclosed in the annual integrated report.
35.		<b>3.5</b> The audit committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities	<b>Applied</b>	The MICRO <i>Omega</i> combined assurance model is used by the Audit Committee and the Risk Committee in all assurance activities.
36.	<b>Internal assurance providers</b>	<b>3.6</b> The audit committee should satisfy itself of the expertise, resources and experience of the company's finance function	<b>Applied</b>	The Audit Committee reviewed the adequacy and is satisfied with the Group's finance function. The Financial Director of MICRO <i>Omega</i> is a qualified chartered accountant. The finance division comprises suitably qualified and experienced individuals.
37.		<b>3.7</b> The audit committee should be responsible for overseeing of internal audit	<b>Applied</b>	The Audit Committee oversees the internal audit function and approves the internal audit plan.

38.		<b>3.8</b> The audit committee should be an integral component of the risk management process	<b>Applied</b>	Risk Committee updates are communicated at all Audit Committee meetings. Recommendations are used to enhance the Risk Committee's functions.
39.	<b>External assurance providers</b>	<b>3.9</b> The audit committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process	<b>Applied</b>	The Audit Committee approves the terms of engagement and the audit fee annually. The quality and effectiveness of the external audit process is evaluated annually by the Audit Committee.
40.	<b>Reporting</b>	<b>3.10</b> The audit committee should report to the Board and shareholders on how it has discharged its duties	<b>Applied</b>	An Audit Committee report is included in the annual integrated report disclosing details of how the committee has achieved its statutory duties for the year.

<b>4. The governance of risk</b>				
41.	<b>Board's responsibility for risk governance</b>	<b>4.1</b> The Board should be responsible for the governance of risk	<b>Applied</b>	The Risk Committee is responsible for the management and implementation of risk management within the organisation. The Risk Committee reports to the Board who carries the ultimate responsibility for risk governance in the organisation.
42.		<b>4.2</b> The Board should determine the levels of risk tolerance	<b>Applied</b>	The levels of risk tolerance are different between each subsidiary. The levels of risk tolerance are recommended by the Risk Committee and approved by the Board.
43.		<b>4.3</b> The risk committee or audit committee should assist the Board in carrying out its risk responsibilities	<b>Applied</b>	The Risk Committee is empowered to assist the Board with the Group's risk management responsibilities. The Audit Committee is responsible

				for the financial reporting risks, fraud risks and internal financial controls of the organisation.
44.	Managements responsibility for risk management	4.4 The Board should delegate to management the responsibility to design, implement and monitor the risk management plan	Applied	A risk management process has been implemented by the Risk Committee. All subsidiary Managing Directors have been trained accordingly and are responsible for implementing the process within their companies. The Risk Committee evaluates the process.
45.	Risk assessment	4.5 The Board should ensure that risk assessments are performed on a continual basis	Applied	Risk assessments are a continuous practice within the Group subsidiaries. Formal risk assessments and discussions are conducted at all Risk Committee meetings.
46.		4.6 The Board should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks	Applied	The current risk management framework used within the MICROmega Group has been comprehensive and effective in preparing the organisation for anticipating risks.
47.	Risk response	4.7 The Board should ensure that management considers and implements appropriate risk responses	Applied	Risk responses are disclosed on MICROmega Group subsidiary risk schedules and are presented to the Board.
48.	Risk monitoring	4.8 The Board should ensure continual risk monitoring by management	Applied	Quarterly risk meetings are held between management and the subsidiary Managing Directors to monitor and update risks both at a subsidiary and Group level. Outcomes of the Risk Committee are presented to the Board.



49.	Risk assurance	<b>4.9</b> The Board should receive assurance regarding the effectiveness of the risk management process	<b>Explain</b>	Internal audit will provide written assurance on the effectiveness of the risk management process in 2015.
50.	Risk disclosure	<b>4.10</b> The Board should ensure that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders	<b>Applied</b>	A Risk Committee report is included in the annual integrated report.
<b>5. The governance of information technology</b>				
51.		<b>5.1</b> The Board should be responsible for information technology (IT) Governance	<b>Applied</b>	The board is ultimately responsible for IT governance in the organisation. The Board has delegated IT related responsibilities to the IT steering committee which reports to the Board.
52.		<b>5.2</b> IT should be aligned with the performance and sustainability objectives of the company	<b>Applied</b>	The board ensure that IT direction is aligned to the group strategy to enable the group to ensure sustainable growth.
53.		<b>5.3</b> The Board should delegate to management the responsibility for the implementation of an IT governance framework	<b>Applied</b>	MICROOmega has an IT Steering Committee that is responsible for the implementation of the IT governance framework in the organisation.

54.		<b>5.4</b> The Board should monitor and evaluate significant IT investments and expenditure		All significant capital expenditure is approved by Board member/s as per the MICROOmega delegation of authority.
55.		<b>5.5</b> IT should form an integral part of the company's risk management		Discussion of IT risks is a recurring item on the agenda of IT Steering Committee and risk committee meetings.
56.		<b>5.6</b> The Board should ensure that information assets are managed effectively		MICROOmega have adequate policies and comprehensive employment contracts to protect the intellectual property of the group. This is

				monitored on a regular basis as it forms part of IT risks.
57.		<b>5.7</b> A risk committee and audit committee should assist the Board in carrying out its IT responsibilities		Both the risk and audit committees ensure that IT risks are adequately addressed. The outcome of the assessment is presented to the board.
<b>6. Compliance with laws, rules, codes and standards</b>				
58.		<b>6.1</b> The Board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards	<b>Applied</b>	The Board, through the company secretary, is made aware of compliance areas, which are addressed at Board meetings to ensure complete compliance with all applicable areas. The risk management process also identifies areas of compliance and ensures compliance.
59.		<b>6.2</b> 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	<b>Applied</b>	The members of the Board and subsidiary Directors are aware of and understand all applicable laws, rules, codes and standards.
60.		<b>6.3</b> Compliance risk should form an integral part of the company's risk management process	<b>Applied</b>	Compliance risk is part of the risk management process and is adequately addressed at Risk Committee meetings.
61.		<b>6.4</b> The Board should delegate to management the implementation of an effective compliance framework and processes	<b>Applied</b>	The Chair of the Risk Committee is tasked with implementing and managing the risk management process (which includes areas of compliance). In addition, Group subsidiary Managing Directors are responsible for all areas of compliance within their businesses.
<b>7. Internal audit</b>				

62.	The need for and role of internal audit	7.1	The Board should ensure that there is an effective risk based internal audit	Applied	MICROOmega has an independent internal audit function. The function is governed by the Internal Audit Charter which is in line with the requirements of King III and the Institute of Internal Auditors' standards.
63.	Internal audit's approach and plan	7.2	Internal audit should follow a risk based approach to its plan	Applied	Internal audit uses a risk based approach in determining the audit plan.
64.		7.3	Internal audit should provide a written assessment of the effectiveness of the company's system of internal control and risk management	Explain	A verbal assessment was provided by internal audit to the Risk Committee in 2014. Internal audit will provide the Board with a written assessment regarding the effectiveness of the risk management process in 2015.
65.		7.4	The audit committee should be responsible for overseeing internal audit	Applied	Refer 3.7
66.	Internal audit's status in the company	7.5	Internal audit should be strategically positioned to achieve its objectives	Applied	Internal audit is an independent function with access to all required areas to perform its function. The Internal Audit Manager and Executive Management have weekly meetings to discuss strategic and operational activities within the Group.

		<b>8. Governing stakeholder relationships</b>		
67.		<b>8.1</b> The Board should appreciate that stakeholders' perceptions affect a company's reputation	<b>Applied</b>	The Board has identified that the stakeholder process needs to be reviewed. There are current initiatives such as identifying and engaging with stakeholders that are being used to better understand the process.
68.		<b>8.2</b> The Board should delegate to management to proactively deal with stakeholder relationships	<b>Applied</b>	The Managing Directors of Group subsidiaries are responsible for managing stakeholder relationships. Members of the Board get involved when necessary.
69.		<b>8.3</b> The Board should strive to achieve the appropriate balance between its various stakeholder Groupings, in the best interests of the company	<b>Applied</b>	The integrated reporting approach has helped the Board to ensure interests and expectations of stakeholders are considered.
70.		<b>8.4</b> Companies should ensure the equitable treatment of shareholders	<b>Applied</b>	MICROOmega's Board ensures compliance with King III, the JSE Listings Requirements and the Companies Act, 2008 on an on-going basis which aims to protect the treatment of minority shareholders.
71.		<b>8.5</b> Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence	<b>Applied</b>	The integrated reporting process ensures transparent and effective communication with shareholders.
72.	<b>Dispute resolution</b>	<b>8.6</b> The Board should ensure disputes are resolved as effectively, efficiently and expeditiously as possible	<b>Applied</b>	The Board ensures that disputes are resolved in an appropriate and timely manner. Disputes are escalated to external parties if/when required.
		<b>9. Integrated reporting and disclosure</b>		
73.	<b>Transparency and accountability</b>	<b>9.1</b> The Board should ensure the integrity of the company's integrated report	<b>Applied</b>	The Audit Committee evaluates sustainability disclosures; however the Board will ultimately be responsible for the integrated reporting and its integrity. Internal audit will

				provide independent assurance on sustainability reporting and disclosure.
74.		<b>9.2</b> Sustainability reporting and disclosure should be integrated with the company's financial reporting	<b>Applied</b>	MICRO <i>Omega</i> is using the integrated reporting approach which includes sustainability and financial reporting.
75.		<b>9.3</b> Sustainability reporting and disclosure should be independently assured	<b>Explain</b>	Sustainability reporting and disclosure has been assured by Group internal audit for the 2014 financial year. Going forward the Board will consider obtaining independent assurance on the Group's sustainability reporting.