



# MICRO

MICROMEGA HOLDINGS LTD KING-III 75 PRINCIPLES 31 MARCH 2017



**MICRO** *mega*  
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.	Ethical Leadership and Corporate Citizenship	<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 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 board 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>	MICRO <i>Omega</i> has a social and ethics committee which is responsible for ethics 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.
<b>2. Boards and directors</b>					
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 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>Explain</b>	Refer 5.1
12.		<b>2.9</b>	The board should ensure that the company complies with applicable laws and considers	<b>Applied</b>	Refer 6.1

		adherence to non-binding rules, codes and standards		
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>Explain</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>	MICRO <i>Omega</i> 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 monitor 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	<b>Explain</b>	The board has appointed Mr DC King as Executive Chairman. Mr. King resigned from this position on 31 March 2017. The board subsequently appointed Mrs. DA di Siena as Executive Chairperson. She was an Independent Non-Executive Director prior to this. Mr. Don Passmore was the Lead Independent Non-Executive Director for the period under review.
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>	MICRO <i>Omega</i> has an appointed Chief Executive Officer. There is an approved delegation of authority within the organisation.

21.	Board Composition	<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>Explain</b>	The MICRO <i>Omega</i> board consist of 4 executive directors and 6 non-executive directors (3 of whom are independent).
22.	Board appointment process	<b>2.19</b> Directors should be appointed through a formal process	<b>Explain</b>	Due the size of the current board, it was decided that the board will assume the duties of a "nomination committee". Directors are appointed by the board. MICRO <i>Omega</i> has an approved policy which details the procedures for appointments to the board of directors.
23.	Director developments	<b>2.20</b> The induction of and on-going training and development of directors should be conducted through formal processes	<b>Explain</b>	This process has not been formalised by the board. Directors are responsible for identifying and attending training courses where necessary. There is also on going internal development of directors.
24.	Company secretary	<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 are performed by Ruan Viljoen, who has been the company secretary since February 2015. Ruan has the necessary experience, qualifications and expertise to perform all company secretarial duties competently.
25.	Performance assessment	<b>2.22</b> The evaluation of the board, its committees and the individual directors should be performed every year	<b>Explain</b>	The board of directors previously took a decision that the use of evaluation forms be discontinued and that any matters for concern in respect of the management of the board or the performance of the board of directors and the individual directors be brought to the attention of the CEO who will deal with the matter in the appropriate manner and inform the board of directors of action taken.

26.	Board committees	<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 board 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 approved by the remuneration committee. The Remuneration Committee adheres to the remuneration policy. Directors' remuneration is considered to be market related as stated in 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>	MICRO <i>Omega</i> has an Audit Committee that meets 4 times a year. The terms of reference of the audit committee has been approved by the board. The Committee has been



				effective in performing its mandate. The Audit Committee was chaired by Mrs DA di Siena, an Independent Non-Executive Director, for the period under review. After Mr. King's resignation as Chairman, Mrs. Di Siena was appointed as Chairperson of the board. The board appointed Mr. GE Jacobs as chairperson of the Audit Committee to replace Mrs. di Siena. He was an Independent Non-Executive Director prior to this.	
32.	Membership and resources of the audit committee	<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 of 3 Non-Executive Directors, all of whom 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 Audit Committee was chaired by Mrs DA di Siena, an Independent Non-Executive Director, for the period under review. After Mr. King's resignation as Chairman, Mrs. Di Siena was appointed as Chairperson of the board. The board appointed Mr. GE Jacobs as chairperson of the Audit Committee to replace Mrs. di Siena. He was an Independent Non-Executive Director prior to this.
34.	Responsibilities of the audit committee	<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 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.	Internal assurance	<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 are 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.
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>The boards 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 ultimately 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 chaired by the Group Chief Executive Officer and 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.	Management's responsibility for risk	<b>4.4</b> The board should delegate to management the responsibility to design, implement and monitor the risk management plan	<b>Applied</b>	A risk management process has been implemented by the Risk Committee. All subsidiary managing directors were trained and are responsible for implementing the process within their companies. The Risk Committee evaluates the process.
45.	Risk assessment	<b>4.5</b> The board should ensure that risk assessments are performed on a continual basis	<b>Applied</b>	Risk assessments are a continuous practice within the Group subsidiaries. Formal risk assessments and discussions are conducted at all Risk Committee meetings.
46.		<b>4.6</b> The board should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks	<b>Applied</b>	The current risk management framework used within the MICROmega Group has been comprehensive and effective in preparing the organisation for anticipating unpredictable risks.
47.	Risk response	<b>4.7</b> The board should ensure that management considers and implements appropriate risk responses	<b>Applied</b>	Risk responses are disclosed on MICROmega Group subsidiary risk schedules and are presented to the board.
48.	Risk monitoring	<b>4.8</b> The board should ensure continual risk monitoring by management	<b>Applied</b>	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 provided the board with written assessments regarding the effectiveness of the risk management process in 2017.
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>Explain</b>	The board and Risk Committee oversaw the appointment of a vCIO (virtual Chief Information Officer) during the period under review. The vCIO has drafted updated IT charters and policies and procedures. This is scheduled for approval at the next board meeting in October 2017.
52.	<b>5.2</b> IT should be aligned with the performance and sustainability objectives of the company	<b>Applied</b>	The board and vCIO 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>	The board and Risk Committee oversaw the appointment of a suitably qualified vCIO (virtual Chief Information Officer) during the period under review, to ensure that the IT areas within the Group are managed adequately.
54.	<b>5.4</b> The board should monitor and evaluate significant IT investments and expenditure	<b>Applied</b>	All significant capital expenditure is approved by board member/s as per the MICRO <i>Omega</i> delegation of authority.
55.	<b>5.5</b> IT should form an integral part of the company's risk management	<b>Applied</b>	Discussion of IT risks is a recurring item on the agenda of all risk committee meetings.
56.	<b>5.6</b> The board should ensure that information assets are managed effectively	<b>Applied</b>	MICRO <i>Omega</i> 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	<b>Applied</b>	Both the Risk and Audit Committee's 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 the applicable areas are complied with.
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 Group subsidiary directors are aware 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 Group Chief Executive Officer (chairman of the risk committee) is tasked with implementing and managing the risk management process (which includes areas of compliance). In addition, 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	<b>7.1</b>	The board should ensure that there is an effective risk based internal audit	<b>Applied</b> MICRO <i>Omega</i> 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 audits approach and plan	<b>7.2</b>	Internal audit should follow a risk based approach to its plan	<b>Applied</b> Internal audit uses a risk based approach in determining the audit plan.
64.		<b>7.3</b>	Internal audit should provide a written assessment of the effectiveness of the company's system of internal control and risk management	<b>Explain</b> Internal Audit provided the board with written assessments regarding the effectiveness of the risk management process in 2017.

65.		<b>7.4</b> The Audit Committee should be responsible for overseeing internal audit	<b>Applied</b>	Refer 3.7
66.	Internal audits status in the	<b>7.5</b> Internal audit should be strategically positioned to achieve its objectives	<b>Applied</b>	Internal audit is an independent function with access to all required areas to perform its function. Internal audit has an invitation to monthly management meetings and Risk Committee meetings.
<b>8. Governing stakeholder relationships</b>				
67.		<b>8.1</b> The board should appreciate that stakeholders' perceptions affect a company's reputation	<b>Explain</b>	The board have 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 and intervene 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>	MICRO <i>Omega's</i> 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.	Dispute resolution	<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 required.
<b>9. Integrated reporting and disclosure</b>				
73.	Transparency and accountability	<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 report 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> are 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>	The sustainability reporting and disclosure was assured by Group internal audit.