



PRINCIPLES OF KING IV AND DISCLOSURE REQUIREMENTS

Principles of King IV and disclosure requirements

This report is to be read in conjunction with the remaining provisions of Gemgrow's 2017 integrated annual report in particular the corporate governance section, the audit and risk committee report, the social and ethics committee report, the remuneration policy and the implementation report commencing on page 67.

Principle 1

The Board should lead ethically and effectively.

Explanation

The Board has taken cognisance of the approach contained in both the Companies Act and King IV that the company has a role to play in society and has an obligation to conduct itself as a responsible corporate citizen.

The Board leads by example and has adopted a code of ethics and conduct so as to commit the business practices which the company will follow to writing as well as the standards of behaviour required by others within the company. Agility, integrity, trust, simplicity and accountability are all relevant words and concepts within the company.

Despite the company not having any employees at present, with property management outsourced to external property managers, the Board ensures that an ethical culture is imbued in its strategy, plans and performance of the company.

Principle 2

The Board should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.

Explanation

The Board assumes responsibility for the governance of ethics. The Board has adopted a code of ethics which clearly sets out the business practices which the company will follow as well as the standards of behaviour for all persons within the company. The Board ensures that the code of ethics is well communicated and understood.

Specifically the company will:

- › Promote ethical business practices;
- › Operate responsibly in accordance with all relevant laws and regulations;
- › Ensure equal opportunities;
- › Provide a safe and healthy working environment;
- › Value diversity in the workplace;
- › Conduct its dealings with third parties in an ethical manner;
- › Provide a safe route for people to highlight non-compliance;
- › Conduct relationships with employees, tenants and stakeholders in a manner which ensures respect for all parties.

These principles sit alongside the company's principles of agility, integrity, trust, simplicity and accountability and together are at the heart of all its dealings and drive the way the company operates as a collective to benefit all employees, tenants, suppliers, shareholders and other stakeholders.

Adherence to corporate governance is entrenched in the company's day-to-day operations.

As the company has as at the date hereof, no employees, application of the company's ethics were monitored monthly with reference to the outsourcing arrangements in place. Meetings were held and telephonic conferences held. No adverse outcomes were found pursuant to the monitoring as aforesaid.

The key areas of focus during the reporting period were as follows:

- › Implementing an ethical culture at Board level, commencing with each appointed director contractually agreeing to conduct themselves in an ethical manner, and disclosing conflicts of interest (where applicable) in respect of agenda items discussed.
- › The company, in its dealings with its investors, stakeholders, suppliers and clients, conducting itself with the highest standard of ethics.
- › Complying with all legal and regulatory requirements.
- › The company implemented a risk framework, which included the risk and impact of unethical behaviour e.g. fraud. Internal controls were evaluated to ensure that the risk of fraud is minimised.

The planned area of future focus is to develop an ethics policy which encompasses in greater detail the relationship with external stakeholders taking into account the legitimate and reasonable needs, interests and expectations of stakeholders.



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Principle 3

The Board should ensure that the organisation is and is seen to be a responsible corporate citizen.

Explanation

The Board has undertaken a full review of the company's position with regards to being a responsible corporate citizen. This includes a review of the company's remuneration policy, work environment, gender diversity, health and safety requirements, reporting on B-BBEE, employment equity and the application of King IV.

The Board has appointed an independent consultant in the year under review. The Board is able to confirm that the only pending requirement is the current Employment Equity submission which will be reported on by 15 January 2018. This will actively be managed and reported as a Board reporting issue moving forward.

In the coming financial year the Board intends developing the focus on "responsible corporate citizenship" with reference, amongst others to the constitution of South Africa and King IV.

A copy of the company's broad-based black economic empowerment verification certificate will be placed on the company's website www.gemgrow.co.za in due course.

Principle 4

The Board should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.

Explanation

The Board assumes responsibility for Gemgrow's strategy (strategy is defined as the setting of the organisation's short-, medium- and long-term direction towards realising its core purpose and values).

Gemgrow repositioned itself late in 2016 as a high-yielding, high growth income focused fund which is internally managed. The Board intends meeting annually in order to reassess the strategy of the company, taking into account then prevailing market conditions. That being said, the Board meets quarterly and will touch on strategy and the need to re-evaluate at each Board meeting.

Gemgrow has an investment committee (refer to pages 16, 17 and 57 for further details) which assists the Board of directors with regards to investment decisions relating to the acquisition and disposal of property by the company in line with its stated strategy.

The terms of reference in respect of the investment committee has been approved by the Board. The company's strategy is reflected in the investment committee's terms of reference namely:

- > to make only yield enhancing acquisitions that grow sustainable earnings thereby providing a platform for growth;
- > acquisitions must be yield enhancing from the date of acquisition;
- > properties which are considered to be surplus to the company's requirements as a result of non-performance, size or location are to be disposed of; and
- > no property should represent more than 10% of the value of the company's portfolio.

Principle 5

The Board 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.

Explanation

The Board ensures that reports issued by the company enable stakeholders to make informed assessments of the company's performance, and its short, medium and long term prospects, subject to statutory and regulatory requirements. The company has retained Sigil Design Bureau to assist with ensuring that its stakeholder communications whether by means of SENS, press, circulars, integrated annual report or direct engagements are clear, informative and articulate.

The Board is provided with copies of circulars and integrated annual reports and given an opportunity to comment thereon prior to dispatch. All SENS announcements, circulars and integrated annual reports and notices of annual general meeting are placed on the company's website www.gemgrow.co.za.

Principle 6

The Board should serve as the focal point and custodian of corporate governance in the organisation.

Explanation

The Board has adopted a Board charter and code of ethics and has established an audit and risk committee, a remuneration and nomination committee, an investment committee and a social and ethics committee each of which have adopted terms of reference, copies of which can be viewed on the company's website www.gemgrow.co.za.

The Board is satisfied that it has fulfilled its responsibilities in accordance with its Board charter for the reporting period.



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Principle 7

The Board should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.

Explanation

In view of the fact that certain of the functions of the remuneration committee and the nomination committee overlap the Board resolved to establish a combined remuneration and nomination committee comprising of three independent non-executive directors. The terms of reference of the committee detail inter alia the procedures for appointments to the Board. As a cornerstone of good corporate governance there is a formal, rigorous and transparent procedure for the appointment of new directors to the Board by:

- › evaluating the skills, knowledge, experience and diversity of the Board members and in the light of the evaluation preparing a description of the role and capabilities required for any particular appointment. In identifying suitable candidates the committee has due regard for the benefits of diversity on the Board and has to be satisfied that appointees have adequate time available to devote to the position; and
- › the proposed appointee is required to disclose all other business interests that could result in a conflict of interest prior to their being recommended to the Board.

The remuneration and nomination committee is tasked with:

- › reviewing the results of the Board evaluation process that relates to the composition of the Board;
- › giving consideration to succession planning for the CEO and executive directors taking into account the challenges and opportunities facing the company and the skills and expertise needed in the future;
- › evaluating the effectiveness of the Board as a whole;
- › considering and evaluating the performance and contribution of the non-executive directors;
- › formulating plans for succession for both executive and non-executive directors and in particular for the key roles of the chairman and the CEO; and
- › proposing suitable candidates for the role of lead independent director.

The remuneration and nomination committee assists with the establishment of a formal and transparent procedure for the establishment of a remuneration policy and for determining the remuneration packages payable to executive directors and non-executive directors with agreed terms of reference.

The Board is committed to the principle of diversity (including gender diversity). All new appointments to the Board will be considered in the context of achieving voluntary gender diversity targets while keeping the operational requirements of the company in mind.

In the coming financial year the social and ethics committee will be reconstituted in line with King IV. It is furthermore intended to adopt a race diversity policy.

Principle 8

The Board 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.

Explanation

The Board has established an audit and risk committee, a remuneration and nomination committee, an investment committee and a social and ethics committee which have certain roles and responsibilities contained in terms of reference adopted by the various committees. The Board has in addition passed an overarching resolution in terms of which certain responsibilities are delegated to executive directors.

Principle 9

The Board should ensure that the evaluation of its own performance and that of its individual members support continued improvement in its performance and effectiveness.

Explanation

An internal informal Board evaluation was undertaken.

All performance evaluations were satisfactory.

The Board is satisfied that the evaluation process is improving its performance and effectiveness.

Principle 10

The Board should ensure that the appointment of and delegation to management contribute to role clarity and the effective exercise of authority and responsibilities.

Explanation

The CEO is in regular contact with the chairman of the Board.

At present the company only has three executive directors and no employees. The chief executive officer, Mark Kaplan is accountable and reports to the Board.



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The Board is satisfied that the delegation of authority framework contributes to role clarity and the effective exercise of authority and responsibilities.

Principle 11

The Board should govern risk in a way that supports the organisation in setting and achieving strategic objectives.

Explanation

Acquisitions and disposals within the parameters set out in Principle 4 above are approved by the investment committee established by the Board. Acquisitions and disposals outside of these parameters are approved by the Board. The strategy of the Board from time to time determines the organisation's risk appetite. The risk matrix on pages 14 and 15 is updated quarterly and any new risks are identified and a process or policy put in place as required.

The focus for the coming financial year will be on assessing the:

- › risks and opportunities emanating from the social, economic and environmental context within which the company operates in South Africa;
- › potential opportunities presented by risks; and
- › risks to achieving organisational objectives.

Principle 12

The Board should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.

Explanation

An outsourced model for all technology requirements is utilised. There is a flat infrastructure with an on-site file server, with back-ups managed manually by the outsourced supplier. There is a non-disclosure agreement in place with the supplier. There are strict log in process for email management which is hosted off-site by an external third party supplier. All accounting reporting for tenants is included as part of the outsourced property manager's service level agreement which utilises cloud managed services.

There were no significant changes in policy during the year under review and no incidents were reported.

The executive directors completed an internal analysis of information technology within the company. In the coming financial year changes to certain back up process are to be implemented.

Future focus will be on off-site, cloud hosted back up management and enhanced security and archiving of email.

Principle 13

The Board should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation's being ethical and a good corporate citizen.

Explanation

The company has a dedicated legal resource that monitors compliance and remains apprised of any new legislation, non-binding rules and codes which may be of application to the company. Pre-emptive action is taken where possible so as to be prepared in advance of the implementation date of new legislation, regulation or codes.

In the year under review inter alia the Property Sector Charter, Companies Act, amendments to the JSE Listings Requirements, King IV, amendments to the Income Tax Act and the Protection of Personal Information Act ("POPI") were considered. Where required, external attorneys and counsel were consulted. The company secretary was also called upon to provide a presentation with regards to the differences between King III and King IV.

In the next financial year the key areas of focus will be among others POPI and King IV.

Principle 14

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

Explanation

Refer to the remuneration report commencing on page 67 setting out the remuneration policy and implementation report.

Principle 15

The Board 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.

Explanation

ERES, the company's outsourced property manager, have an internal audit department which provides assurance on the internal controls of ERES.



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continued

Principle 16

In the execution of its governance role and responsibilities, the Board should adopt a stakeholder inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.

Explanation

The Chair of the Board attends all shareholder meetings.

The executive directors have an open door policy and regularly engage with tenants and meet monthly with the property managers. Sigil Design Bureau facilitates larger stakeholder engagements. The Board is guided among others, by the JSE Listings Requirements when engaging with stakeholders. The company's website www.gemgrow.co.za is widely used to disseminate information.

The future focus will be on:

- > developing a plan for communication in crisis situations;
- > procuring the attendance of the designated partner of the external audit firm at general and annual general meetings of the company; and
- > the implementation of policies and procedures of the holding company by subsidiaries.