King IV compliance

HOSPITALITY PROPERTY FUND LIMITED

Registration number 2002/006356/06
('Hospitality' or 'the Company' or 'the Group')

APPLICATION OF KING IV

Hospitality has mindfully interpreted and applied King IV in a manner that is appropriate for the organisation and the Hospitality sector in which it operates. To this end, the Board has adopted an appropriate governance framework for the Group. The Board oversees the implementation of the governance framework, which it believes has resulted in the Group being a good corporate citizen and achieving an honest and ethical culture, good performance, effective control within the organisation and legitimacy with stakeholders.

Hospitality's application of King IV is illustrated below (and should be read with the Governance report contained in the 2020 integrated annual report):

King IV principle	Practice
Principle 1 The governing body should lead ethically and effectively	The Board of Directors has instilled a strong ethical culture, which flows through to executive management. The executive management team has a 'hands-on' management approach and ensures that the Company's ethical principles and business practices are implemented by staff. The Group associates itself with business partners and service providers with similar ethical values. Board members are aware of their fiduciary duty in terms of the Companies Act, 2008 to act in good faith and in the best interests of the Company, at all times. The chairperson of the Board is responsible for the effective operation of the Board and ensures that the behaviour of Board members is in accordance with Hospitality's code of conduct and its ethics policy. The nomination committee will focus on conducting an internal evaluation of the Board and its committees in FY2021.
Principle 2 The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture	*Refer to principle 1 above.* Directors and staff are required to adhere to the Group's ethics policy and code of conduct, which is reviewed annually. Hospitality does not tolerate any form of bribery or corruption. The social and ethics committee has an increased responsibility for the monitoring of good corporate citizenship and the management of ethics and for ensuring that anti-corruption and anti-fraud principles are adhered to. The implementation and monitoring of the ethics policy and the code of conduct is the responsibility of the executive management team. The key aspects of the ethics policy are how business is conducted, the Group's societal contribution and handling of people, the need for employees to speak out about wrongdoings, conflicts of interest, the legitimate interests of the business, application of law, policies and procedures, corporate governance matters and individual accountability. The ethics policy provides guidance on matters such as conflicts of interests, acceptance and giving of donations and gifts, compliance with laws and the dissemination of confidential information. It explains the nature of conflicts of interests and requires for any real or perceived conflict of interest, to be disclosed as soon as possible. General declarations of interests are made by Board members annually and updated throughout the year. Procedures, which include, but are not limited to an independently managed whistle-blower line, may be utilised to bring any unethical business practices to the attention of the Board and its committees. Investigations are carried out and findings reported, and disciplinary, civil or criminal action is taken as and when appropriate. All senior employees are required to sign an annual declaration confirming no conflicts of interest and compliance with laws and regulations.

King IV compliance continued

King IV principle	Practice
Principle 3 The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen	The board oversees the implementation of the governance framework, which it believes has resulted in the Group being a good corporate citizen and achieving an honest and ethical culture, good performance, effective control within the organisation and legitimacy with stakeholders. The social and ethics committee is a statutory committee of the Board. The committee oversees and reports on the following: – The Group's organisational ethics – The promotion of equality – The prevention of unfair discrimination – The environment – Health and public safety, including the impact of the Company's activities and of its products or services – Sustainable development – Stakeholder relationships – Transformation The Company remunerates its staff fairly and has a good health and safety record. Employees are developed within the Group and receive regular training on relevant matters.
Principle 4 The governing body 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	The Board is accountable to its stakeholders for the Group's performance and activities. In order to achieve its responsibility for the sustainable success and overall control of the Group, the Board has approved the Group's governance framework, policies and its strategy, the implementation of which has been delegated to executive management and is monitored by the Board, through detailed quarterly reporting to the Board and its committees. The Board, in line with the Board charter: – reviews the Group's strategy and business model regularly to ensure that it meets the Group's core purpose; – monitors performance against strategy; – considers the Group's risks and opportunities and the extent of the risks and opportunities that the Group is willing to take in pursuit of its strategic objectives.
Principle 5 The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance, its short, medium and long-term prospects	The Board and each of its sub-committees approves in advance a programme for the year ahead. All reports required to be distributed to shareholders are included in the programme. *Ad hoc* announcements released on the JSE's SENS system are, if required, reviewed by the Board. Executive management strives to release information to stakeholders in a simple, clear and transparent manner to ensure that information is easily understood and engages with stakeholders on any queries raised. The Board and the audit and risk committee collectively reviews the integrated annual report in order to ensure that it addresses material matters to its stakeholders in the short, medium and long term and ensures that all reports are issued in compliance with the relevant codes and legal requirements. The Board annually signs off on a JSE compliance certificate verifying that to the best of its knowledge, the Company has complied with all the Listings Requirements of the JSE.
Principle 6 The governing body should serve as the focal point and custodian of corporate governance in the organisation	*Refer to principle 1 above.* The Board is responsible for corporate governance. Various policies and procedures have been implemented to support good governance in the Group.

King IV compliance continued

King IV principle	Practice
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 objectively and effectively	The Board exercised its prerogative to appoint Marcel von Aulock as the Chairman of the Board. As a compensating control, a lead independent director was appointed. The lead independent director is Mohamed Haroun Ahmed who also serves as the Chairman of the audit and risk and remuneration committees, and is therefore well placed to influence the governance of the Company and meet his obligations. By the appointment of independently strong minded directors to its Board and by separating and clearly defining the roles and responsibilities of the Chairperson and the Chief Executive Officer, as set out in the Board charter and the Group's levels of authority, it ensures a balance of power and authority and precludes any one director from exercising unfettered powers of decision-making. The Board comprises a majority of independent non-executive directors with varied skills and experience. The Board comprises 60% black members. Although Hospitality has adopted a Board diversification policy, which includes gender, age, ethnicity and cultural diversity, no voluntary targets have been set. Board diversity is assessed and monitored annually. The Board considers diversity a core measurement in the appointment of new members. Hospitality considers the independence of directors holistically, and on a substance-over-form basis, in line with the practices of King IV and based on the indicators set out in the Companies Act and the JSE Listings Requirements. The composition of the Board, independence, experience, race and gender can be found in the 2020 integrated annual report. Summarised curricula vitae can be found on the Company's website on **http://www.hpf.co.za**
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	*See principle 7 above.* Hospitality's memorandum of incorporation delegates shareholders' authority to the Board, with the exception of a few selected matters, for consideration by shareholders. The Board has delegated certain matters to its committees as set out in their respective terms of reference. Executive management operate within defined levels of authority that is reviewed by the Board annually.
Principle 9 The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and individual members, support continued improvement in its performance and effectiveness	*Refer to principle 7 and 8 above.* Hospitality's Board was reconstituted on 1 June 2018. In accordance with King IV, performance assessments of the Board, its committees, chairpersons and individual members will be conducted during FY2021.
Principle 10 The governing body should ensure that the appointment of, and the delegation to, management contributes to the role clarity and the effective exercise of authority and responsibilities	The appointed Chief Executive Officer is Mrs Mara de Lima. She is responsible for executing strategy and the daily running of the business. The annual performance of executive management is measured by pre-approved financial and personal key performance objectives. These measurements clearly define expectations and assists with role clarity.

King IV compliance continued

King IV principle	Practice
Principle 11 The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives	*Refer to principle 4 above.* The Board has adopted an enterprise-wide approach to risk management. The process of identifying and managing risks has been delegated to the audit and risk committee, which receives input from the Company's internal risk committee. The audit and risk committee determines the Group's risk appetite and tolerance levels. It recognises the material issues that could impact on achieving the Group's strategic outcomes and manages those risks in accordance with the Group's risk management plan. Opportunities are also recognised and acted upon, if appropriate. The systems of internal control are designed to manage rather than eliminate risk, and provide reasonable but not absolute assurance as to the integrity and reliability of the financial statements, the compliance with statutory laws and regulations, and to safeguard and maintain accountability of the Group's assets. The Board and executive management acknowledge that an integrated approach to the total process of assurance improves the assurance coverage and quality in addition to being more cost-effective. The audit and risk committee has monitored compliance with the Group's risk management policy and confirmed that Hospitality has complied with the policy in all material aspects.
Principle 12 The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives	The audit and risk committee oversees the governance of information technology ('IT'). The IT strategy, governance processes and all decision-making form part of a coordinated and integrated process across relevant business functions. All strategies and decisions are developed in a collaborative manner with the business and are based on the demands of the industry that the Company operates in.
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	The Board is responsible for and strives to comply with all applicable laws and regulations to the best of its ability. Compliance is an ethical imperative and is monitored by the audit and risk committee and, in applicable instances, by the social and ethics committee and reported to the Board. A legal universe compliance framework is in place. New legislation impacting on the Group is discussed at Board meetings. The Board is assisted in this regard by the Company Secretary, Directors have unlimited access to the services of the Company Secretary and external legal advisers.
Principle 14 The governing body should ensure that the organisation remunerates fairly, responsibly and transparent so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term	The remuneration committee is responsible for overseeing the Group's remuneration policy and practices. It is the Company's objective to create a strong performance orientated culture, where exceptional individual contribution is recognised and rewarded fairly. Hospitality is of the view that suitably designed, responsible, fair and competitive remuneration is imperative in driving and retaining top calibre executives and staff, whose interests are aligned with stakeholders and who positively contribute to the implementation of the Company's strategic objectives.
Principle 15 The governing body should ensure that assurance services and functions enables an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation	Assurance is obtained by management oversight, compliance with the Company's risk management framework and independent and objective assurance by the audit and risk committee supported by external and internal audit. The internal audit function is outsourced to GRIPP Advisory Proprietary Limited who reports directly to the audit and risk committee and has unrestricted access to the committee's chairperson and the Company's Financial Director. Assurance is obtained on the Group's results from the external auditor. Assurance is obtained on the Group's B-BBEE rating from an independent rating agency.
Principle 16 In its execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interest and expectations of material stakeholders with the best interests of the organisation over time	Hospitality's Board recognises that good governance and strong, strategic and ethical leadership create shareholder value and confidence. The importance of developing and nurturing positive and stable relationships with key stakeholders is recognised as a driver of business success. The social and ethics committee is the custodian of the Group's commitment to responsible corporate citizenship. Hospitality's ethics and disclosure of information policies guide directors' relationships with and commitment to stakeholders. Details of stakeholder engagement is set out in the 2020 integrated annual report.