



King III application 2014

A year of opportunity

King III application

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Hyprop Investments Limited – 1987/005284/06	IoDSA GAI score	Applied/partially applied/not applied
+ Chapter 1: Ethical leadership and corporate citizenship	AAA	Applied
+ Chapter 2: Boards and directors	AAA	Applied
+ Chapter 3: Audit committee	AAA	Applied
+ Chapter 4: The governance of risk	AAA	Applied
+ Chapter 5: The governance of information technology (IT)	AAA	Applied
+ Chapter 6: Compliance with laws, rules, codes and standards	AAA	Applied
+ Chapter 7: Internal audit	AAA	Applied
+ Chapter 8: Governing stakeholder relationships	AAA	Applied
+ Chapter 9: Integrated reporting and disclosure	AA	Applied
Overall score	AAA	Powered by IoDSA GAI

AAA Highest application
 AA High application
 BB Notable application
 B Moderate application
 C Application to be improved
 L Low application

Principle	Board requirement	Comment
Chapter 1: Ethical leadership and corporate citizenship		
1.1	The board should provide effective leadership based on an ethical foundation.	In line with its charter, the board is the guardian of the group's values and ethics and provides effective leadership on an ethical foundation. The group's code of ethics sets out Hyprop's commitment to the highest level of ethical conduct, fair dealing and integrity in business practice as an operational imperative.
1.2	The board should ensure the company is and is seen to be a responsible corporate citizen.	Hyprop's board is the focal point for good corporate citizenship and sets the values to which the company adheres. The board aims to integrate responsible corporate citizenship into the company's growth strategy and daily operations to ensure sustainability. The social and ethics committee reflects Hyprop's commitment to responsible corporate citizenship. The group has adopted the principles of the Global Reporting Initiative (GRI) which guide it in its corporate responsibility.
1.3	The board should ensure the company's ethics are managed effectively.	As per its charter, the board ensures Hyprop's ethics are managed effectively. The social and ethics committee assists the board in overseeing social and ethical matters in the group. Hyprop's code of ethics, to which all members of the board, management and employees of the group are required to adhere, promotes and enforces ethical business practices.

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Principle	Board requirement	Comment
Chapter 2: Boards and directors		
2.1	The board should act as the focal point for and custodian of corporate governance.	In line with its charter, the board acts as the focal point for and custodian of corporate governance by conducting its relationship with management, shareholders and other stakeholders along sound corporate governance principles. No one director has unfettered powers of decision making.
2.2	The board should appreciate that strategy, risk, performance and sustainability are inseparable.	The board, in line with its charter, is responsible for aligning the strategic objectives, vision and mission with risk and performance. The group's formal risk management process considers the full range of risks including strategic and operational risk, encompassing performance and sustainability. A social and ethics committee is responsible for sustainability issues.
2.3	The board should provide effective leadership based on an ethical foundation.	In line with its charter, the board is the guardian of the values and ethics of the group and provides effective leadership on an ethical foundation. The group's code of ethics sets out its commitment to the highest level of ethical conduct, fair dealing and integrity in business practice as an operational imperative.
2.4	The board should ensure the company is and is seen to be a responsible corporate citizen.	See 2.3.
2.5	The board should ensure the company's ethics are managed effectively.	The board ensures Hyprop's ethics are managed effectively. The social and ethics committee assists the board in overseeing social and ethical matters for the group. Hyprop's code of ethics, to which all members of the board, management and employees are required to adhere, promotes ethical business practices. Employees and the public can report any acts of fraud and unethical behaviour on a confidential fraud hotline.
2.6	The board should ensure the company has an effective and independent audit committee.	The audit committee comprises three independent non-executive directors in line with King III. Members are elected by shareholders at the annual general meeting.
2.7	The board should be responsible for the governance of risk.	The risk committee is responsible for overseeing the group's risk management programme. It reports to the board which retains ultimate responsibility for the control and management of risk. The risk committee is responsible for reviewing and assessing the company's risk control systems and ensures that risk policies and strategies are effectively managed. Specifically the role of the committee is to assist the board in ensuring that: <ul style="list-style-type: none"> ■ The company has implemented an effective policy and plan for risk management that will enhance its ability to achieve its strategic objectives ■ Disclosure on risk is comprehensive, timely and relevant.
2.8	The board should be responsible for IT governance.	The board, through the risk committee, is responsible for effectively managing relevant IT risks.

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Principle	Board requirement	Comment
Chapter 2: Boards and directors continued		
2.9	The board should ensure Hyprop complies with applicable laws and considers adhering to non-binding rules, codes and standards.	In line with its charter, the board ensures Hyprop complies with applicable laws and considers adherence to non-binding rules and standards, assisted by the risk committee.
2.10	The board should ensure there is an effective risk-based internal audit.	The outsourced internal audit service provider offers an outsourced, risk-based internal audit function. The internal auditor reports directly to the audit committee and attends all audit committee meetings.
2.11	The board should appreciate that stakeholders' perceptions affect the company's reputation.	The board recognises that engaging with appropriate individuals or groups enhances our operations and enables us to manage risk and reputation. Investor relations and stakeholder engagement are key focus areas for the board.
2.12	The board should ensure the integrity of the company's integrated report.	The audit committee oversees integrated reporting and is responsible for recommending the board to approve this report.
2.13	The board should report on the effectiveness of the company's system of internal controls.	The audit committee oversees internal audit, including the appointment of this function, monitoring its performance and approving the internal audit plan. It ensures the internal audit function is subject to an independent quality review, as the committee deems appropriate. Internal audit is outsourced and independent. It assists management in assessing whether systems of internal control are adequate and effective. Internal audit prepares a plan aligned to Hyprop's key risks.
2.14	The board and its directors should act in the best interests of the company.	The board acknowledges its role as trustee on behalf of shareholders. In terms of its charter, it acts in the best interests of the group by ensuring individual directors adhere to legal standards of conduct; are permitted to take independent advice in connection with their duties following an agreed procedure; disclose real or perceived conflicts to the board and deal with them accordingly; and deal in securities only in line with the policy adopted by the board.
2.15	The board should consider business rescue proceeding or other turnaround mechanisms as soon as the company is financially distressed as defined in the Act.	The board is responsible for initiating business rescue proceedings if warranted. The audit committee reviews the going-concern principle, as well as the solvency and liquidity principle, as set out in the Companies Act.
2.16	The board should elect a chairman who is an independent non-executive director. The chief executive officer (CEO) should not also fulfil the role of chairman of the board.	The chairman of Hyprop is an independent non-executive director. His role is to provide strategic guidance as well as encourage and allow adequate debate at board level. The company's MoI provides for one-third of directors to retire by rotation after a three-year term of office. Directors standing for re-election by rotation at the upcoming AGM include the chairman.
2.17	The board should appoint the CEO and establish a framework for delegation of authority.	The board appointed Pieter Prinsloo as CEO and has approved a framework for delegation of authority. The CEO is responsible for strategy execution and the oversight of day-do-day operations.

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Principle	Board requirement	Comment
Chapter 2: Boards and directors continued		
2.18	The board should comprise a balance of power, with a majority of non-executive directors. The majority of non-executive directors should be independent.	The majority (nine) of directors are non-executive, with six categorised as independent.
2.19	Directors should be appointed through a formal process.	There is a formal and transparent process for appointing directors. The remuneration and nomination committee assists with the process of identifying suitable candidates to be proposed to shareholders.
2.20	The induction, and ongoing training and development, of directors should be conducted through formal processes.	There is a formal induction programme for new directors. Inexperienced directors are developed through mentorship programmes. Continuing professional development programmes are implemented to ensure directors receive regular briefings on changes in risks, laws and the environment.
2.21	The board should be assisted by a competent, suitably qualified and experienced company secretary.	CIS Company Secretaries Proprietary Limited, an independent company secretarial practice, was appointed in compliance with the Companies Act, JSE Listings Requirements and recommendations of King III. The board deems its representative, Neville Toerien, to be suitably qualified. The company secretary operates on an arm's-length bases from the board and is not a member of the board.
2.22	The evaluation of the board, its committees and individual directors should be performed every year.	The board was evaluated in July 2014. A subcommittee assessment process will be implemented in the next year.
2.23	The board should delegate certain functions to well-structured committees but without abdicating its responsibilities.	Without abdicating its own responsibilities, the board delegates certain functions to specific committees: <ul style="list-style-type: none"> ■ Audit committee ■ Risk committee ■ Investment committee ■ Remuneration and nomination committee ■ Social and ethics committee. Each committee has a formal charter approved by the board and reviewed regularly.
2.24	A governance framework should be agreed between the group and its subsidiary boards.	All policies and procedures are followed by subsidiary boards.
2.25	Companies should remunerate directors and executives fairly and responsibly.	The board is responsible for ensuring Hyprop has an appropriate remuneration strategy. The remuneration and nomination committee has an independent role, making recommendations to the board for its consideration and final approval to ensure the group remunerates directors (including fees for non-executive directors) and executives fairly and responsibly; and that disclosure of directors' remuneration is accurate, complete and transparent. Remuneration is set out in the directors' remuneration report. Fees for board and committee members are approved annually at the annual general meeting.
2.26	Companies should disclose the remuneration of each individual director and prescribed officers.	The remuneration of directors and prescribed officers is disclosed on pages 71 and 118 of the integrated report.
2.27	Shareholders should approve the company's remuneration policy.	Details of the remuneration policy are on page 70. The remuneration policy is submitted to shareholders to consider and endorse by way of a non-binding advisory vote at the annual general meeting.

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Principle	Board requirement	Comment
Chapter 3: Audit committee		
3.1	The board should ensure that the company has an effective and independent audit committee.	On 28 August 2013, Thabo Mokgatlha was appointed to the board as an independent non-executive director, and to the audit committee. This committee now comprises three independent non-executive directors in line with King III guidelines. Their election will be confirmed by shareholders at the annual general meeting.
3.2	Audit committee members should be suitably skilled and experienced independent non-executive directors.	Members of the committee are all suitably skilled and experienced independent non-executive directors in accordance with the Companies Act.
3.3	The audit committee should be chaired by an independent non-executive director.	The committee is chaired by Lindie Engelbrecht, an independent non-executive director.
3.4	The audit committee should oversee integrated reporting.	The audit committee charter requires the committee to oversee integrated reporting and perform a comprehensive review of the report.
3.5	The audit committee should ensure that a combined assurance model is applied to provide a co-ordinated approach to all assurance activities.	The audit committee charter tasks the committee with ensuring that a combined assurance model is applied to provide a co-ordinated approach to all assurance activities by management, internal and external audit. During the year under review, the audit committee has ensured that the combined model has been applied.
3.6	The audit committee should satisfy itself of the expertise, resources and experience of the company's finance function.	The audit committee considered the expertise, resources and experience of the financial director, Laurence Cohen, and concluded that these were appropriate.
3.7	The audit committee should be responsible for overseeing of internal audit.	The audit committee oversees internal controls and internal audit. The audit committee is satisfied that KPMG is independent of the group.
3.8	The audit committee should be an integral component of the risk management process.	The committee specifically oversees financial reporting risks; internal financial controls; fraud risks as they relate to financial reporting; and IT risks as they relate to financial reporting. Some members have dual roles as members of the audit and risk committees. This facilitates the cross-pollination of information.
3.9	The audit committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process.	The committee nominated Grant Thornton to shareholders for appointment as the external auditors, and reviewed and evaluated the conduct of its audit.
3.10	The audit committee should report to the board and shareholders on how it has discharged its duties.	The committee has an independent role with accountability to both the board and shareholders. Hence the committee prepares a report which is included in the integrated report on page 75.

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Principle	Board requirement	Comment
Chapter 4: Governance of risk		
4.1	The board should be responsible for the governance of risk.	<p>The risk committee is responsible for overseeing the group's risk management programme. The committee reports directly to the audit committee, which in turn reports to the board, which retains ultimate responsibility for the control and reduction of risk.</p> <p>It is responsible for reviewing and assessing the company's risk control systems and ensures that risk policies and strategies are effectively managed. Specifically the role of the committee is to assist the board in ensuring that:</p> <ul style="list-style-type: none"> ■ The company has implemented an effective policy and plan for risk management that will enhance its ability to achieve its strategic objectives ■ The disclosure on risk is comprehensive, timely and relevant.
4.2	The board should determine the levels of risk tolerance.	The risk committee makes recommendations to the board on risk tolerance levels.
4.3	The risk committee or audit committee should assist the board in carrying out its risk responsibilities.	See 4.1.
4.4	The board should delegate to management the responsibility to design, implement and monitor the risk management plan.	The day-to-day responsibility for risk management remains with management both at an operational and group executive level.
4.5	The board should ensure that risk assessments are performed on a continual basis.	<p>The risk committee ensures that risk management assessments are performed on a continuous basis.</p> <p>KPMG's internal audit methodology includes planning, strategic analysis and enterprise risk assessment.</p>
4.6	The board should ensure that the frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks.	The risk committee monitors the implementation of the policy and plan for risk management taking place by means of risk management systems and processes.
4.7	The board should ensure that management considers and implements appropriate risk responses.	The risk committee ensures that management considers and implements appropriate risk responses. These are tested by the internal auditors.
4.8	The board should ensure continual risk monitoring by management.	Through the risk committee the board ensures that continuous risk monitoring by management takes place.

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Principle	Board requirement	Comment
Chapter 4: Governance of risk continued		
4.9	The board should receive assurance regarding the effectiveness of the risk management process.	The company's risk management process identifies, assesses and monitors risks to which Hyprop is exposed. The risk committee liaises with the audit committee to exchange information relevant to risk and it expresses the committee's view to the board on the effectiveness of the system and process of risk management.
4.10	The board should ensure processes are in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders.	The group's integrated report includes disclosure on risk management on pages 50 to 57.
Chapter 5: Governance of information technology (IT)		
5.1	The board should be responsible for IT governance.	The board, through the risk committee, is responsible for effectively managing relevant IT risks.
5.2	IT should be aligned with the performance and sustainability objectives of the company.	In line with corporate objectives, all sites are being converted to a standard property management system and an IT strategy is being developed.
5.3	The board should delegate to management the responsibility for the implementation of an IT governance framework.	Management is responsible for implementing IT governance. The audit and risk committees regularly assess IT governance as per their respective charters.
5.4	The board should monitor and evaluate significant IT investments and expenditure.	The board monitors and evaluates significant IT investments and expenditures, although implementation and execution are delegated to management.
5.5	IT should form an integral part of the company's risk management.	The risk committee charter includes terms of reference relating to IT governance.
5.6	The board should ensure that information assets are managed effectively.	The management of IT assets is incorporated into the group's risk management process.
5.7	A risk committee and audit committee should assist the board in carrying out its IT responsibilities.	See 5.1.

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Principle	Board requirement	Comment
Chapter 6: Compliance with laws, codes, rules and standards		
6.1	The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards.	In accordance with its charter, the board ensures that Hyprop complies with applicable laws and considers adherence to non-binding rules and standards. The company has engaged an internal legal executive, a company secretary and a professional sponsor.
6.2	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.	In line with its charter, continuing professional development programmes are implemented which ensure directors receive regular briefings on changes in laws. In addition, the risk committee identifies relevant areas in terms of changes in laws.
6.3	Compliance risk should form an integral part of the company's risk management process.	Legislative issues are an identified significant risk and addressed as part of the risk management process.
6.4	The board should delegate to management the implementation of an effective compliance framework and processes.	All Hyprop employees are appointed based on their expertise and experience. They are all expected to keep abreast of legislation and compliance requirements that affect their particular area of responsibility. The group has appointed an internal legal executive.
Chapter 7: Internal risk		
7.1	The board should ensure that there is an effective risk-based internal audit.	KPMG was appointed in 2011 to provide an outsourced internal audit function, which is risk-based.
7.2	Internal audit should follow a risk-based approach to its plan.	Internal audit follows a risk-based approach in accordance with the risk register.
7.3	Internal audit should provide a written assessment of the effectiveness of the company's system of internal control and risk management.	This is done by the outsourced internal audit service provider.
7.4	The audit committee should be responsible for overseeing internal audit.	The audit committee is responsible for overseeing internal audit, including appointment of the internal audit function, monitoring its performance and approving the internal audit plan. Further, the committee ensures the internal audit function is subject to an independent quality review, as the committee determines it appropriate.
7.5	Internal audit should be strategically positioned to achieve its objectives.	Internal audit is outsourced and independent. It assists management in assessing whether systems of internal control are adequate and effective. Internal audit prepares a plan based on the areas of operational risks and controls in place.

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Principle	Board requirement	Comment
Chapter 8: Governing stakeholder relations		
8.1	The board should appreciate that stakeholders' perception affect a company's reputation.	Hyprop recognises that engaging with individuals or groups enhances its operations and better enables it to manage risk and reputation.
8.2	The board should delegate to management to proactively deal with stakeholder relationships.	Hyprop has identified its stakeholders and the channels of communication used for dialogue. These are regularly reported to the executive committee. The group has an internal investor relations executive.
8.3	The board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interests of the company.	The appropriate balance is assessed regularly, with assistance from the company secretary and outside advisors where appropriate.
8.4	Companies should ensure the equitable treatment of unitholders.	Unitholders are treated equally in accordance with various laws and regulations that protect minority interests.
8.5	Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence.	The company has a comprehensive stakeholder engagement process in place and communicates with stakeholders in a number of ways.
8.6	The board should ensure that disputes are resolved as effectively, efficiently and expeditiously as possible.	Disputes with stakeholders are addressed in the appropriate forum and steps taken to ensure any disputes are resolved effectively, efficiently and expeditiously.
Chapter 9: Integrated reporting and disclosure		
9.1	The board should ensure the integrity of the company's integrated report.	The audit committee oversees integrated reporting and is responsible for the integrity of the integrated report.
9.2	Sustainability reporting and disclosure should be integrated with the company's financial reporting.	The company's vision and mission statements, strategic objectives and value system are integrated into all policies, procedures, decision making and operations, with sustainability as the ultimate objective. Progress is disclosed in the integrated report.
9.3	Sustainability reporting and disclosure should be independently assured.	At present the company does not obtain independent assurance. This will be considered in future.

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Combined assurance

In line with best practice, we are adopting a combined view of the various processes currently in place to assess financial and non-financial performance standards across our group. In time, and within the constraints of the nature and geographic spread of our portfolio, this will develop into a formal combined assurance model.

Business process assured/audited	Output	Status	Provider
Financial			
Annual financial statements	Audit	Unqualified audit opinion	Grant Thornton
Internal audit plan	Outsourced	Completed	KPMG
Sustainability			
Sustainability performance	2014 report submitted	Validation and analysis under way	Global Real Estate Sustainability Benchmark
Sustainability performance	Annual disclosure	2014 review under way	JSE Socially Responsible Investment Index
Black economic empowerment level	Level 8	Review under way	Honeycomb Transformation
Health and safety			
Health and safety standards against legislation	Annual audits	100% of portfolio	Scott-Safe
Environment			
Environmental performance	2014 report submitted	Independent validation under way	Carbon Disclosure Project
Environmental management plan – Canal Walk		Compliant	Century City precinct
Environmental management plan – Willowbridge		Compliant	Town council
Human resources			
Employment equity plan	Annual submission	Compliant	Department of Labour
Governance			
Governance standards	Governance assessment instrument	AAA score	Institute of Directors