

## RESILIENT REIT LIMITED

(Incorporated in the Republic of South Africa)

(Registration number 2002/016851/06)

JSE share code: RES ISIN: ZAE000209557

Bond company code: BIRPIF

(Approved as a REIT by the JSE)

(“Resilient” or “the Company”)



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## GENERAL OVERVIEW AND UPDATE FOLLOWING ENGAGEMENT WITH STAKEHOLDERS

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### INTRODUCTION

This announcement summarises key events for Resilient over the last year, clarifies matters that remain open and those considered resolved, and is an update on the outcome of engagement by an independent board sub-committee (the “committee”) with a range of stakeholders.

### BACKGROUND AND KEY EVENTS THROUGH 2018

In January, a rumour and social media campaign was coupled with a sharp sell-off and unusual share trading patterns causing Resilient’s share price to decline from its December 2017 highs. In response, Resilient provided a voluntary trading update and distribution guidance, brought forward the presentation of its interim results, and met with the Financial Services Board (now the Financial Sector Conduct Authority) (“FSCA”) regarding its concerns that the campaign was impacting on its share price.

In late January, market speculation that Resilient would be the subject of a report by Viceroy Research proved incorrect, but rumours abounded and, on 2 February 2018, by SENS announcement, Resilient warned shareholders that it was aware of rumours that it would be the target of a report apparently intended to substantiate the views of short-sellers. In the following week, reports by short-sellers or their associates began being circulated, and Resilient published its responses showing the reports to contain materially false and misleading facts and innuendos.

Facing these extensive negative accusations and commentaries, Resilient investigated possible candidates of stature and credibility to lead an independent review of the key allegations.

By mid-February, Resilient was able to announce that the independent review would be led by Mr Shauket Fakie, whose credentials include appointment for seven years as the Auditor General of South Africa and serving as the chairperson of the United Nations Panel of External Auditors. Mr Fakie then appointed an independent advocate, with directly relevant expertise and experience in forensic market abuse investigation and prosecution, to assist him with the review.

In late March, Resilient updated shareholders on several matters including progress and expected timing of a report by Mr Fakie following the independent review and referred shareholders to its website where the agreed wide scope of the review had been made public.

In the meantime, Resilient pursued with Fortress REIT Limited (“Fortress”) and the trustees of the Siyakha Education Trust and The Siyakha 2 Education Trusts (“Siyakha Trusts”) the possibilities of a restructure of the Siyakha Trusts, keeping shareholders informed by SENS announcements in February and March.

In the same period, Resilient explored a number of different mechanisms for eliminating its shareholding in Fortress, culminating in an announcement on 6 April 2018 of its distribution *in specie* of Fortress B shares as a return of capital.

After various update announcements, on 10 April 2018, Resilient announced the outcome of the independent review as contained in a report provided to the board by Mr Fakie. At that stage, Mr Fakie’s preference was to provide his report to the FSCA and to make public only the outcome of his report, which found that no wrongdoing on the part of Resilient or its executives was evident from the available information. Despite market criticism, the Resilient board respected Mr Fakie’s preference to delay making his full report public, on the basis

that Mr Fakie would be available to meet with interested parties, including shareholders and asset managers, to discuss his report and the process and scope of his review, which happened over the following months.

In March, the FSCA issued a press release identifying that it was investigating allegations of market abuse in respect of Resilient shares. Resilient has offered and continues to offer every assistance and co-operation to the FSCA and is well aware that its shareholders are deeply frustrated at the limited information made available by the FSCA and the perceived lack of progress. Resilient is confident that it has done all it can to interrogate and have the information available to it independently reviewed, with no indication of wrongdoing on the part of the Company or its executives and their associates. However, the committee recognises that only the FSCA has the extensive investigative powers required to adequately probe and address unlawful third party share dealings.

In May, the Resilient board announced that it had revisited the accounting treatment of the Siyakha Trusts in terms of IFRS 10: *Consolidated Financial Statements*. Having engaged and consulted with various IFRS and legal experts, Resilient concluded that it should have consolidated the Siyakha Trusts and group results were restated accordingly.

From about June, the nomination committee considered a number of proposals from shareholders regarding board composition and interviewed candidates for appointment as new independent non-executive directors. In June, Mr Barry Stuhler resigned as a long-standing director and in August Resilient appointed Messrs Alan Olivier, David Brown and Des Gordon as new independent non-executive directors, with Mr Olivier replacing Mrs Thembi Chagonda as chair of the board.

With the changes in the composition of the board, in September the newly appointed chairman revisited with Mr Fakie whether he would be prepared to make the report of his independent review public, as the market had no sense of when the FSCA might complete its investigation. Mr Fakie agreed, provided the report was first reviewed by attorneys. When that review was completed a few weeks later, Resilient released Mr Fakie's report to the public. Feedback from stakeholders generally has confirmed the view that Mr Fakie's review was credible and independent and that release of the full report resolved concerns regarding share activity by Resilient and its subsidiaries, executives and their associates, and the Siyakha Trusts. One shareholder has queried the three on-market sales, of 2 695 NEPI shares, 3 894 Rockcastle shares and 4 877 NEPI Rockcastle shares, detailed in Table 1A of Mr Fakie's report, as the specifics of these trades were not detailed. The committee has reviewed these trades, which were on-market at prevailing prices and effected for administrative purposes, such as achieving rounding in the shareholding preceding a reporting period, and will provide the full details to the shareholder concerned, copying Mr Fakie.

In August, ten asset managers (the "**signatories**") wrote to Resilient, with a copy of the letter immediately leaked to the press, requesting a further independent and open-ended investigation to be done jointly with Fortress, Greenbay Properties Limited and NEPI Rockcastle plc. Resilient appointed a board committee of six independent non-executive directors to consider the letter and prepared a comprehensive written reply to the chairs of all the signatories setting out its initial views, including that it was not feasible or appropriate for four separately listed companies to undertake any joint investigation, and requesting further information and clarification from the signatories regarding their views and positions. Over the weeks that followed, most of the signatories replied in writing, but not on a collective basis. The replies were diverse, ranging from a leading asset manager stating that it was very satisfied with the committee's written response and did not think any further action was required on the part of the board, to some still calling for a further investigation. While none of the correspondence after the first letter from the signatories has been leaked to the press, Resilient has kept shareholders updated through regular SENS announcements on 31 August, 11 September and 18 October 2018.

Following the correspondence, the committee has now met with all the signatories, as well as a number of Resilient's largest shareholders (including shareholders who declined to sign the August letter), to ensure as far as practicable that the committee understands the positions of the signatories, major shareholders and other stakeholders. All in all, over the last several weeks, the committee has met with sixteen stakeholders, an engagement process that will be continued in 2019.

Reiterating its commitment to dealing appropriately with all substantiated concerns of stakeholders and to transparent engagement and communication, the board provides in this announcement a summary of the key allegations raised through the year including matters originally raised by the signatories as well as concerns that it is aware remain common to five or more of the sixteen stakeholders after the engagement process. Resilient summarises its actions, taken and to be taken, in response, below:

<b>Matter or concern</b>	<b>Resilient response</b>	<b>Status</b>
Cross-shareholding with Fortress	Addressed by <i>in specie</i> distribution of Resilient's Fortress B shares.	Resolved
Allegations that Resilient's directly held properties were over valued	Resilient appointed new independent valuers to value all of its properties as at 30 June 2018, resulting in the Company's South African portfolio being valued upwards by 3.9%, as further detailed in the June 2018 annual financial statements.	Resolved
Allegations that the share activity of Resilient subsidiaries, executives and their associates, and the Siyakha Trusts was manipulative	14 months of share trading activity has been independently reviewed by Mr Fakie, who has exonerated Resilient, its executives and their associates, and the Siyakha Trusts, based on the evidence available to him. One stakeholder has asked for the review period to be extended, but absent any evidence indicating any wrongdoing, the committee does not consider this request justified.	Resolved to the best of Resilient's ability given the information available to it
Allegations relating to third party share dealings	The investigation of these allegations can only be undertaken by the FSCA. The chairman of Resilient will however write to, and will as appropriate continue to liaise with, the FSCA offering every assistance with its investigation, as well as communicating market and stakeholder concerns that the investigation should be resolved as urgently as is feasible and requesting periodic meaningful updates.	Ongoing
Accounting related to the Siyakha Trusts	Group results have been restated reflecting consolidation of the Siyakha Trusts.	Resolved
Distributable earnings derived from loans to the Siyakha Trusts	The decline in the price of shares held by the Siyakha Trusts has resulted in the reduction and elimination of their net asset value. For so long as the Siyakha Trusts' total liabilities exceed the value of its total assets Resilient will, for purposes of calculating its distributable earnings, recognise interest accrued on the loans advanced to the Siyakha Trusts only to the extent that the accrued interest is matched by dividends declared for the same period in respect of the shares held by the Siyakha Trusts. Resilient has updated its published distribution guidance on this basis.	Resolved
Restructure of relationship with the Siyakha Trusts	Principles of a proposed restructure have been announced, with details to be proposed to shareholders in the first half of 2019, subject to agreement with affected third parties.	Ongoing
Establishment of an independent whistle-blower hotline	An independent whistle-blower hotline has been established, which refers all allegations it receives to the chair of the board. Only one complaint has been received via this hotline to date, relating to a Resilient SENS announcement on 5 February 2018 and misconstruing information provided regarding share trades by the Siyakha Trusts. A response has	Resolved

	been provided by the chair to the complainant and no further queries have arisen.	
Board composition	The board of directors has been reconstituted by one resignation, three new appointments of independent non-executives (including candidates nominated by shareholders) and the appointment of a new chair.	Resolved
Capital raising	The report by Mr Fakie following his independent review dealt with the processes followed in the implementation of the Resilient bookbuild in August 2017 and the considerations and process for the allocation of shares to participants. In addition, the committee has reviewed the processes followed by the bookrunner, Java Capital, in all three of the bookbuilds undertaken by Resilient since 2014 and is satisfied that the processes and allocations, even though unregulated, were appropriately and fairly considered.	Resolved
Property transactions	The Company understands that stakeholders remain concerned about the resurfacing of allegations contained in a series of anonymous emails known as the “Limpopo memos”, which were widely circulated in 2009. While the transactions in question relate to Fortress, allegations were made implicating certain executives of Resilient, who became involved in subsequent litigation involving a commercial competitor which culminated in a civil court ordering that investigations (which the executives believed were improper and undertaken by so-called “rogue cops” at the behest of the competitor) should rather be referred to the National Prosecuting Authority as an appropriate and impartial authority. Fortress has announced its investigation of these matters and has informed Resilient that the outcome of its investigations will be made fully available to the committee. If this outcome includes any adverse finding relating to any director or employee of Resilient, the committee will act appropriately. In the meantime, the committee has been given no reason to consider there to be any misconduct or wrongdoing on the part of any Resilient director or employee.	Ongoing
BBBEE compliance	Stakeholders have queried the compliance of the Siyakha Trusts with applicable board-based black economic empowerment regulations. Over the years, Resilient has been advised by external consultants who assessed the compliance of the Siyakha Trusts with the applicable BBBEE codes, particularly in periods when the codes were amended. This advice is available to the committee and does not indicate any instances of non-compliance. While the Siyakha Trusts may be compliant with the respective legislation which makes them eligible to be recognised as a BBBEE shareholder of Resilient, their current negative net asset value has impacted its overall recognition for	Ongoing

	<p>purposes of the ownership scorecard and Resilient expects this to negatively impact its BBEE rating at the conclusion of the ongoing evaluation of Resilient's empowerment credentials. A proposed restructure of the Siyakha Trusts is expected to be finalised in the first half of 2019.</p>	
<p>Company policies governing directors' dealings</p>	<p>Resilient has strong controls in place for the disclosure of directors' interests and dealings in Resilient shares, which comply with the JSE Listings Requirements. The board intends expanding these policies to require disclosure by directors (to the chairman) of intended trades in the shares of companies in which the Company is invested, with the intention of identifying potential conflicts. In addition, the board has noted that Resilient's management does not currently own any retail properties and has adopted a policy precluding management from direct investment in retail properties without prior board approval.</p>	<p>Ongoing</p>
<p>Resilient responses to false and misleading content of analyst reports, commentary and press coverage</p>	<p>The committee has noted various reports, commentary and press coverage that contain materially false information concerning Resilient, which should be referred to the FSCA as the regulator mandated to investigate and, in appropriate instances, take enforcement action in cases of market abuse in the form of false, misleading or deceptive statements in respect of Resilient's shares or in respect of the Company's past or future performance. In addition, the committee is considering what action, if any, would be achievement-orientated regarding the many examples of press coverage that does not meet the requirement for truthful, accurate and fair reporting contained in the Code of Ethics and Conduct for South African Print and Online Media, adopted by The Press Council of South Africa.</p>	<p>Open and under ongoing consideration</p>

## GENERAL COMMENTS ON CONCERNS AND ALLEGATIONS

In general, stakeholders appear to the Company to have welcomed the steps taken to date by the board in addressing all concerns and allegations that have arisen during the year and to have been encouraged by the board's commitment to transparency and to acting in the best interests of Resilient and its shareholders.

The committee notes in particular that, having now had the benefit of access to the report prepared by Mr Fakie and made public by Resilient, all stakeholders engaged by the committee were unanimously of the view that Mr Fakie was a credible and independent party for purposes of the independent review.

Since 11 September 2018, as publicised in prior announcements, the Company has arranged for an independent whistle-blower hotline reporting directly to the chair of the board of Resilient. Over nearly four months of extensive communication with a wide range of stakeholders and open availability through the hotline for anyone to provide information (anonymously, if preferred), the committee and the chair of Resilient have not been provided with any evidence substantiating any of the concerns raised by the signatories of the letter received in August, or other stakeholders or commentators. The committee reiterates that it remains available to receive such evidence either directly or through the whistle-blower hotline.

Having considered the extensive remedial actions taken, the results of the investigations performed, and the feedback received from stakeholders, the committee considers key remaining open matters to be the FSCA

investigation of third-party share dealings and the investigation by Fortress related to the property transactions during 2009 or earlier. The committee awaits the conclusion of these investigations and remains committed to full transparency in addressing any findings that may impact the Company or its stakeholders.

The committee will continue to liaise with stakeholders regarding all matters raised, including those not of common concern to stakeholders.

Shareholders will be kept updated by further announcement.

13 December 2018

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The logo for Java Capital, featuring the word "JAVA" in a bold, sans-serif font with a blue underline, followed by "CAPITAL" in a lighter, all-caps sans-serif font.