

# GEMFIELDS

Afrika Avontuur Kapitaal (Pty) Ltd  
Afrika Avontuur Trust  
Groundswell Holdings (Pty) Ltd  
Peter D Wimsey & Associates (Pty) Ltd  
Rational Expectations (Pty) Ltd  
Rozendal & Associates Holdings Ltd  
Rozendal Partners (Pty) Ltd

**c/o William Marshall-Smith**

Groundswell Holdings (Pty) Ltd  
15 Rugby Road  
Oranjezicht  
Cape Town  
Republic of South Africa

8 June 2020

Gentlemen,

**Your letter dated 21 May 2020**

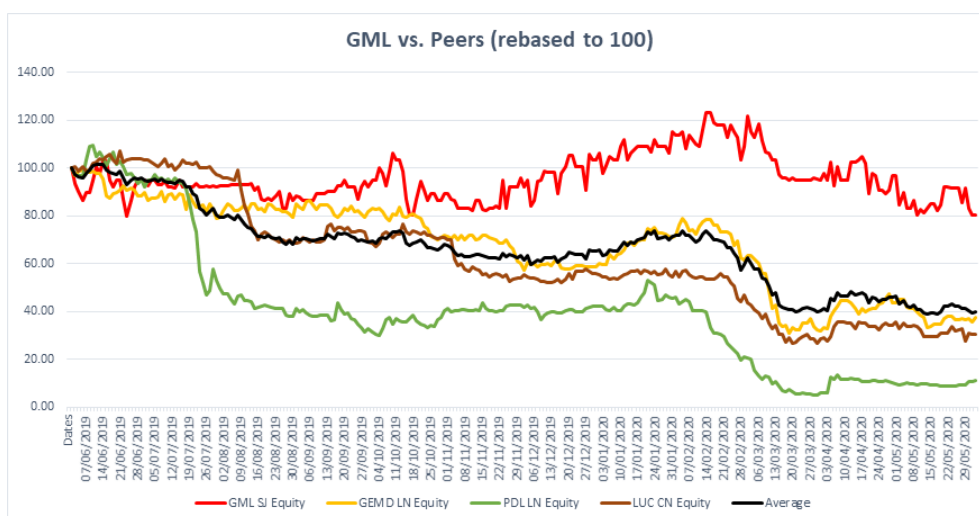
Thank you for your letter dated 21 May 2020 (which we received on 26 May 2020) in respect of your concerns regarding Gemfields Group Limited (“GGL”).

We are naturally disappointed that your view of current corporate governance standards and perceived poor performance of the group leaves you concerned. We take the view that GGL’s corporate governance standards have improved markedly since 2017 and that they will continue to do so. Inter alia, we note that only 3 of the directors in office on 30 June 2017 remain on the GGL Board today. In respect of your concern regarding poor performance, we note that 2019 was a record-setting year for GGL and that the consolidated balance sheet at year-end was both enviable and a vast improvement when compared with 2017.

You suggest that GGL shareholders have received no returns. We would point out that, following the watershed changes to GGL in 2017, a share buy-back programme was initiated in December 2017 resulting in some USD 20 million being returned to shareholders since (with 166.7 million shares being repurchased at an average price of ZAR 1.71 per share). While that was a fairly modest start in returning funds to shareholders, our management team is on record regarding their ambition of declaring GGL’s maiden dividend. Our balance sheet at the end of 2019 put us in a good position to do just that at the announcement of our 2019 results. Our management team and this Board were particularly disappointed when COVID-19 and the arising need to preserve cash scuppered that plan.

With a market capitalisation of around USD 100 million, it is common ground that our share price performance has been downright dreadful and does not presently reflect the underlying value perceived by most parties.

While it is of limited comfort, we point out that GGL has markedly outperformed its diamond-sector peers over the last 12 months:



As you are aware, our 2020 AGM will take place on 24 June 2020 (in respect of which notice had to be given by 30 April 2020, with the document printers requiring the finalised documents well in advance).

In your letter dated 21 May 2020, received by us on 26 May 2020, you ask that we delay the AGM and issue revised paperwork in order to propose additional changes to our articles of association, being at a minimum the following:

1. *Directors should be capable of being appointed or removed from office by an ordinary resolution of its members, not a special resolution; and*
2. *The maximum number of directors in office, determined by ordinary resolution, should be increased from eight to ten.*

We deal with each of these requests in turn below.

### **Appointment and Removal of Directors**

In his first conversation with Mr Marshall-Smith on 8 April 2020, we understand that our CEO noted his belief in the fundamental principle that shareholders have the right to appoint their board of directors and that he himself would not wish to occupy a seat in any company against the wishes of a majority of shareholders.

Our view is that GGL's threshold for the appointment and removal of directors by shareholders should be reduced from 75% to 50% (the "**Reduced Threshold**") to align GGL with best practice and that this should be put to shareholders at our 2021 AGM, together with such other changes as may arise from our ongoing (internal and external) review of the articles of association (which review includes the other two areas you raised in your e-mail dated 9 April 2020 as well as your further suggestions regarding articles 18 and 24 contained in your letter dated 21 May 2020).

Our Chairman and/or CEO have now held discussions with GGL shareholders holding in excess of 610 million shares (52% of GGL's issued share capital), all of whom are content that the Reduced Threshold be tabled at the 2021 AGM, which we will therefore do. Two further GGL shareholders, holding more than 13% between them, had not at the date of this letter yet indicated whether they too would be content with the same.

While we note you have a different view, we believe it is inadvisable to implement the Reduced Threshold in the immediate wake of COVID-19 and before GGL has been able to re-establish reasonably stable business, including by hosting a few successful auctions (which will hopefully occur in Q4 2020 and Q1 2021). As is clear to you, GGL is an attractive takeover target: our share price is already very low and may get lower if auction revenue is further delayed or falls below expectations. Dynamics in the gemstone market are understandably shaky and are highly likely to remain that way for the next 4-10 months. These realities, combined with the prevailing global climate of significant economic uncertainty make for seriously suboptimal conditions in which to extract optimal value for shareholders should hostile or opportunistic bidding arise. We therefore repeat our view that the Reduced Threshold should be put to shareholders at the 2021 AGM (and which we have committed to doing).

### **Board Size**

Your suggestion of increasing the maximum board size from 8 to 10 persons was raised with us for the first time in the letter we received from you on 26 May 2020 (almost a month after notice of the AGM was issued).

Our experience suggests that, generally, larger boards are associated with increased costs, time requirements, scheduling difficulties and delays in administering paperwork, meeting minutes and resolutions.

That said, we raised your suggestion with finnCap, GGL's Nominated Adviser under the AIM Rules. They noted, inter alia, that:

- a. finnCap as Nominated Adviser, must continuously assess the "efficacy of the board as a whole for the company's needs" (AIM Rules for Nominated Advisers, ER3);*
- b. a board of 10 members would be disproportionate for the Company's needs and size. While key decisions should be the domain of the whole board and its responsibility is to set and oversee the strategy of the Company, Gemfields, as a listed entity, also needs to be able to move nimbly. An oversized board of more than 8 would, in our view, be detrimental to that necessity and could become unwieldy and cumbersome, perversely prohibiting the board's ability to act in the shareholders' best interests;*
- c. a board of that size would be a marked outlier in terms of AIM companies and certainly those of Gemfields' size. The number of AIM-listed boards with 9 or more members is 22, which accounts for just 3% of the companies with a market capitalisation below GBP 200 million. The average board size is just over 5.*

We do not therefore intend proposing to GGL shareholders that the maximum board size be increased from 8 to 10 persons.

However, GGL has been seeking an 8<sup>th</sup> director to serve as a non-executive board member and this process is ongoing. We would invite you to propose suitably qualified and experienced persons for addition to the list of candidates. Should you wish to do this, we would be pleased to provide you with a copy of the recruitment brief. The person ultimately proposed for appointment would also need to be vetted and assessed for suitability by finnCap.

## **Concluding Remarks**

As our CEO has previously indicated to you, our external legal advisors are presently working on a further review of Gemfields' articles in light of the various matters you have raised and the extent to which further 'normalisation' would be suitable in light of AIM and JSE practices, Guernsey law (where GGL is registered) and the governance benchmarks set by the large diversified mining companies, all with a view to better aligning GGL with market practice and further improving the corporate governance framework. Further proposed amendments to the articles arising from this review will also be put to GGL shareholders at the 2021 AGM.

Your letter suggests that our CEO raised constraints relating to "available resources" as a reason for not effecting your portfolio of requested changes to the articles of association at the 2020 AGM. This is not his recollection. Rather, he noted much of the background contained in this letter, regretted that your approach had not come sooner and pointed out that:

- On 17 April 2020: *"As I mentioned yesterday, given COVID19, there are clearly a number of serious and pressing matters facing Gemfields at present, requiring that we prioritise our time and attention on those in the weeks ahead."*; and
- On 16 April 2020: *"As you can imagine, we have a number of serious challenges facing the business at present. These arise not only from COVID19 and the need for costs savings, but include considerations regarding extremists in Mozambique and what best to do with our inventory there. That said, we have not been idle on the articles. Internal discussions, including with some of our non-exec directors, have taken place. In addition, the last review of our articles as part of our AIM listing has also been studied. We have also asked our house lawyers (an external firm) to check our articles against "market", including the diversified miners. As I said in our call, much work has gone into already proposed changes to the articles for the forthcoming AGM - those do not address all the matters you raised."*

Should you feel that particular directors on the GGL Board need to be held "accountable to shareholders", you are invited to submit your candid views. In addition, we understand you have distributed to certain shareholders a presentation aimed at unlocking the value in GGL but which has not been shared with GGL. If you believe your plan would benefit GGL's shareholders as a whole, we would invite you to share that with us also.

Finally, we wish to assure you that the GGL Board is committed to continuing the improvements made to our corporate governance framework since 2017 and to unlocking the value inherent in our portfolio of assets. GGL's culture and approach to enhanced shareholder insight is also illustrated by the atypical levels of operational transparency in our shareholder presentations and performance updates.

For and on behalf of the Board of Gemfields Group Limited

A handwritten signature in black ink, appearing to read 'Toby Hewitt', with a stylized flourish at the end.

Toby Hewitt  
Company Secretary