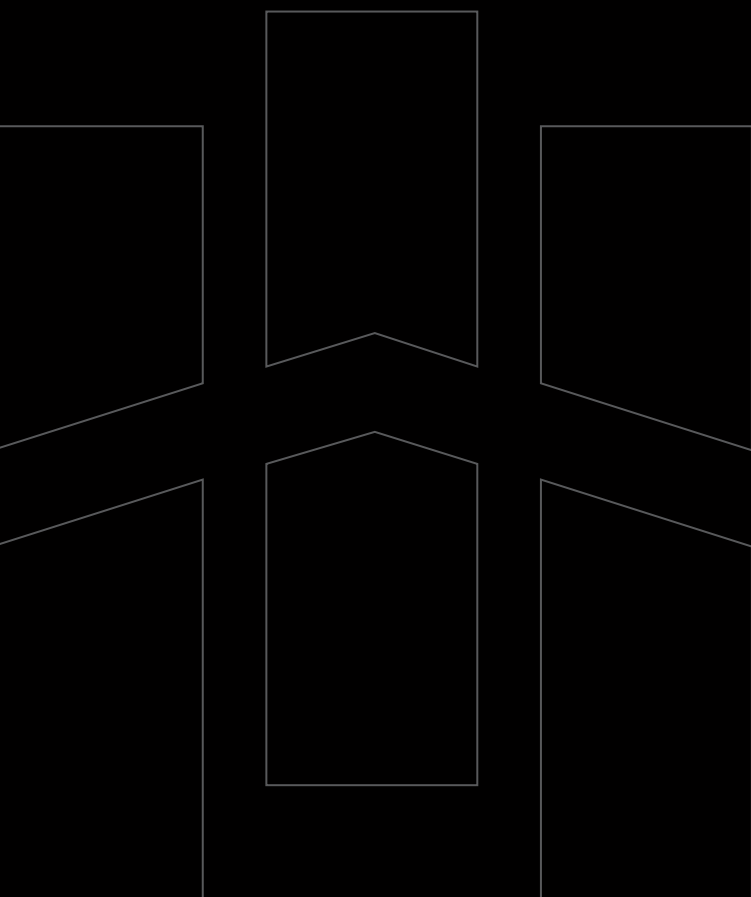




2018 Integrated report

for the 13-month period ended 30 June



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Heriot at a glance

Heriot REIT Limited (“Heriot”, the “company” or the “group”) is a property holding and investment company that listed on the Diversified REITs sector on the Alternative Exchange (“AltX”) of the JSE Limited (“JSE”) on 24 July 2017.

Heriot is invested in industrial, retail, office and specialised properties situated in areas with high growth potential. The group's primary objective is to acquire yield-enhancing assets within South Africa to create a stable and diverse portfolio of assets for the purposes of generating secure and escalating rental income streams.

Investment property

41 properties

R4,345 billion

475 903m² GLA

One

property under development

Net asset value

R11,59

per share

33,7%

net of cash
loan to value

Average cost
of borrowings

9,1%

Total distribution

79,27 cents

per share



Directorate

Executive directors



Non-executive directors



1 Richard Lawrence Herring (46)

Chief executive officer
CA(SA)

Richard is a qualified chartered accountant who served articles at Grant Thornton (previously Fisher Hoffman Sithole). In 2003, Richard joined Heriot Properties where he worked closely with the team to build the Heriot portfolio. Today he is the CEO of Heriot and his responsibilities include the management, growth and development of the portfolio. Richard is a member of the executive council and board of governors of Yeshivah College School.

Richard is a member of Heriot's investment committee.

2 Janys Ann Finn (54)

Chief financial officer
BCom, BAcc, CA(SA)

Janys, after serving articles at Grant Thornton, became the first female partner in the practice in 1993. She served as a partner for 13 years, servicing a large, diversified portfolio of clients, including several listed companies and clients in the property sector, before leaving for commerce in 2005. Since then, Janys has been CFO of Metboard Property Fund, Redefine Properties Limited, where she was instrumentally involved in the merger of Madison, ApexHi and Redefine, and Rebosis Property Fund Limited. She joined the Heriot group in 2014 and was appointed as a director of Heriot on 18 April 2017.

Janys is a member of Heriot's investment committee and social and ethics committee.

3 Stephen David (Dave) Friend (72)

Non-executive chairman
BComm, CA(SA)

Dave, the sole practitioner in the auditing practice SD Friend & Company for the last 46 years, has vast experience with a number of clients in the financial and property sector. He was also the auditor of the Heriot group from 1998 to 2016 when he resigned to take up the position of non-executive chairman of Heriot.

Dave is a member of Heriot's social and ethics committee.

4 Selwyn Joel Blieden (46)

Lead independent director
Independent non-executive director
PhD (Cambridge), CFA

Selwyn is a Principal at Barclays Africa and leads the bank's commercial property finance business in Africa (ex-South Africa). Prior to taking on this role, he was a founding member of the RMB Westport team, leading structuring and corporate management for RMB Westport's developments in Nigeria. Previously, he co-founded and managed Rand Merchant Bank's Opportunities in Global Real Estate portfolio. This portfolio had exposure to international property assets exceeding US\$250 million. Before joining Rand Merchant Bank, Selwyn was a consultant in the Johannesburg office of McKinsey & Company, serving clients in several African jurisdictions. Selwyn is a CFA Charterholder and holds a PhD in Mathematics from the University of Cambridge.

Selwyn is chairman of Heriot's audit and risk committee and chairman of the remuneration and nomination committee.

5 Steven Bernard Herring (47)

Non-executive director
Undergraduate degree in Marketing (University of Johannesburg), Masters of Business Administration (MBA) – Heriot-Watt University

Steven started Heriot Properties in South Africa in 1998, operating out of a small office. He led investments into industrial property where covenants were of a blue-chip nature and the leases ensured sustainable long-term cash flows. Through the relationships formed from these strong covenants, Heriot Properties continued to acquire a number of industrial properties throughout South Africa, all anchored by these blue-chip tenants. In 2003, Steven put a team of professionals together and began constructing retail shopping centres, focusing on the CBDs, rural and township areas, developing over 20 malls tenanted mainly by national brands that underpinned the sustainable cash flow model. Today, Heriot continues to own six of these malls together with six small strip malls. Steven won the Johnnie Walker Jewish Entrepreneurial Award in 2011. He was appointed as a director of Heriot on 18 April 2017.

Steven is a member of Heriot's remuneration and nomination committee and chairman of the investment committee.

6 Trevor John Cohen (76)

Independent non-executive director
BCom, LLB

In 1980, Trevor joined Ellerines Group where, as head of the Real Estate Department, his primary function was to secure sites for Ellerines' expansion programme. After eight years with Ellerines, he joined OK Bazaars ("OK"), which was then a subsidiary of South African Breweries ("SAB"). As joint head of the Real Estate Division, he was responsible for building shopping centres for OK Supermarket as the anchor tenant. His responsibilities further included the leasing of line shops including negotiations with landlords, drafting, concluding and signing of lease agreements and managing the rent rolls of the various centres. In October 1997, OK was acquired by the Shoprite Group and Trevor was absorbed into the property division as the head of the Gauteng branch of the New Business Development Division where he continued in this role until retirement age in March 2005. He remained in Shoprite's employ as a senior consultant until, by mutual consent, he retired in April 2017.

Trevor is a member of Heriot's audit and risk committee and remuneration and nomination committee.

7 Nelson Ngale (55)

Independent non-executive director
Nelson is a former Cosatu Chairman and ANC Regional Treasurer. Previously, he developed petrol stations and shopping centres in rural areas in South Africa. Nelson is currently the Chairman of EBM Projects (formerly Exxaro Base Metal – Zinco). The company was a zinc refinery, but it is now focused on rehabilitating slime dams and the mining of lead, zinc and gold for resale to China.

Nelson is chairman of Heriot's social and ethics committee and a member of the audit and risk committee.



Portfolio review

| Property | Address |
|-----------------------|--|
| Retail | |
| Tsakane | Modjadji and Mandela Streets, Tsakane, Brakpan |
| Tembisa | Cnr Andrew Mapheto Drive and Isimuku Road, Tembisa |
| Phokeng Mall | Sun City Main Road, Phokeng |
| Shoprite Fishhoek | 54 Main Road, Fishhoek, Western Cape |
| Shoprite Sea Point | Main Road, The Towers, Sea Point, Cape Town |
| Shoprite Mowbray | Cnr Main Road and Rhodes Avenue, Rosebank, Mowbray, Western Cape |
| Score Itsoseng | President Mangope Drive, Itsoseng, North West |
| Siyabuswa Mall | Bongimfundo Street, Siyabuswa, Mpumalanga |
| Burgersfort Mall | Cnr Dirk Winterbach and Mpumula Street, Burgersfort |
| Shoprite Athlone | Cnr Birchwood and Cornhill Street, Athlone, Western Cape |
| Shoprite Kempton Park | Cnr West Street and Oak Avenue, Kempton Park, Johannesburg |
| Shoprite Rustenburg | 10 Kroep Street, Ou Dorp, Rustenburg |

Total retail

| | |
|------------------------------|---|
| Industrial | |
| Voltex Cleveland | 11 Cleveland Road, Cleveland Ext 5 |
| Hermans (Supergroup) Midrand | 875 and 876 Freight Road, Louwlandia, Centurion |
| Masscash Denver | 65 Mimetes Avenue, Denver |
| Mondi Pinetown | 17 Oppenheimer Street, Pinetown |
| Mondi Port Elizabeth | 2 – 8 Savotex Road, Deal Party Estate, Port Elizabeth |
| Mondi Epping | Lossack Street, Epping Extension 2, Cape Town |
| Mondi Nelspruit | 13 Heyneke Street, Nelspruit Industrial Site |
| Mondi Kuilsriver | 40 Fabriek Street, Kuilsriver, Western Cape |
| Mondi Brakpan | 1 Molecule Road, Vulcania, Brakpan |
| Mondi Wadeville | Cnr Moore/Dekema and Lantern Road, Wadeville |
| Dawn | Cnr Barlow Road and Cavaleros Drive, Jupiter |
| ABB Alrode | 4 and 6 Clarke Street, Alrode |
| Metro Devland | Cnr East Street and Piston Road, Soweto, Devland |
| Metro Hyper Windhoek | Erf 1211, Klein Kuppe, Windhoek |
| Hyundai | Cnr Lucas and Norman Road, Bedfordview |
| Imperial Bloemfontein | 19 Hooflaan, Estoire, Bloemfontein |
| Imperial Goodwood | 239 to 283 Voortrekker Road, Goodwood, Cape Town |
| Imperial Kimberley | Cnr Phakamile Mabija and Hull Streets, Kimberley |
| Imperial Mt Edgecombe | 27 Siphosethu Road, Mount Edgecombe, Durban |

Total industrial

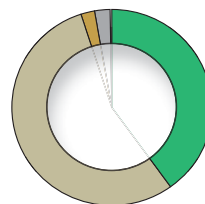


| GLA m ² | Average rent per m ² | Vacancy m ² | Valuation R'000 |
|-----------------------|------------------------------------|---------------------------|--------------------|
| 32 118 | 156 | 10 | 400 250 |
| 25 014 | 192 | – | 662 000 |
| 16 918 | 116 | 232 | 236 000 |
| 3 497 | 121 | – | 48 000 |
| 2 638 | 117 | – | 50 000 |
| 5 532 | 83 | – | 73 500 |
| 1 500 | 17 | 1 500 | 9 500 |
| 16 257 | 137 | – | 298 000 |
| 15 079 | 170 | – | 316 000 |
| 3 832 | 96 | – | 44 000 |
| 6 799 | 53 | – | 64 000 |
| 8 161 | 89 | – | 103 200 |
| 137 345 | 121 | 1 742 | 2 304 450 |

| | | | |
|----------------|-----------|----------|------------------|
| 8 966 | 30 | – | 33 700 |
| 3 069 | 163 | – | 45 000 |
| 34 100 | 47 | – | 191 000 |
| 23 867 | 41 | – | 120 500 |
| 10 505 | 28 | – | 41 100 |
| 28 894 | 34 | – | 128 500 |
| 11 357 | 41 | – | 70 500 |
| 20 409 | 26 | – | 73 400 |
| 24 936 | 17 | – | 55 200 |
| 23 000 | 66 | – | 174 500 |
| 49 822 | 88 | – | 245 500 |
| 18 605 | 48 | – | 125 800 |
| 6 635 | 44 | – | 40 800 |
| 13 500 | 43 | – | 89 600 |
| 6 050 | 111 | – | 54 000 |
| 17 906 | 51 | – | 93 150 |
| 4 000 | 44 | – | 14 700 |
| 2 356 | 52 | – | 9 825 |
| 18 136 | 50 | – | 73 700 |
| 326 113 | 51 | – | 1 680 475 |

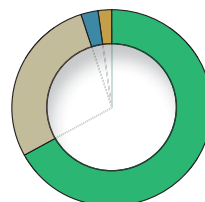
Sectoral profile

Value



- 37,5% Industrial
- 51,5% Retail
- 6,5% Office
- 2,1% Specialised
- 2,4% Under development

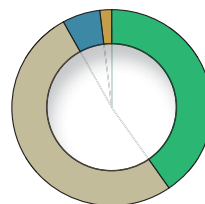
Total GLA (m²)*



- 67,0% Industrial
- 28,2% Retail
- 2,7% Office
- 2,1% Under development

* The specialised property comprises 8,382 hectares of industrial farms and the inclusion of this in the analysis by GLA would not provide meaningful analysis of the portfolio as a whole.

Total gross rental



- 40,5% Industrial
- 51,6% Retail
- 6,1% Office
- 1,8% Specialised



Portfolio review continued

| Property | Address |
|----------------------------|---|
| Office | |
| Super Group | 27 Impala Road, Chiselhurst, Sandton |
| Offices Melrose Arch | Unit 9a, 1st Floor, 3 Melrose Boulevard, Melrose Arch, Johannesburg |
| Mondi Offices Melrose Arch | 4th Floor, 3 Melrose Boulevard, Melrose Arch, Johannesburg |
| Europcar | 16 Ernest Oppenheimer Avenue, Bruma, Johannesburg |
| Renault | 10/12 Ernest Oppenheimer Street, Bruma, Johannesburg |

Total office

Specialised – paper plantations

| | |
|--|--|
| Lions Glen/Ihlati/Geluk/ Gemsbokfontein | Ihlati (Eersteling); Gemsbokfontein; Lions Glen; Geluk |
| Hinze | Farm Vlakplaats 201, KwaZulu-Natal |
| Newbrough Grange | Keerom 1190, KwaZulu-Natal |
| Bushmans Bend | Portion 1 of Bushmans Bend 433, Mpumalanga |

Total specialised

Total investment property

* 8,38 ha² of industrial farms not included in total GLA.

Under development

| | |
|--------------------------|------------------------------|
| Adderley Street property | 2 Adderley Street, Cape Town |
|--------------------------|------------------------------|

Total under development

Owner occupied*

| | |
|---------------------|---|
| 3 Melrose Boulevard | Suite 1, 3 Melrose Boulevard, Melrose, Johannesburg |
|---------------------|---|

Total owner occupied

Total portfolio

* Owner occupied property has been accounted for as property, plant and equipment and is therefore excluded from investment property in the statement of financial position.

Average annualised property portfolio yield 8,37%.

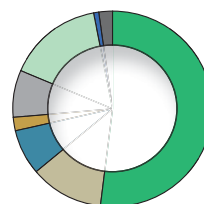
| GLA m ² | Average rent per m ² | Vacancy m ² | Valuation R'000 |
|-----------------------|------------------------------------|---------------------------|--------------------|
| 3 702 | 251 | – | 117 300 |
| 309 | 287 | – | 11 300 |
| 3 094 | 265 | 1 324 | 98 800 |
| 2 766 | 63 | – | 22 925 |
| 2 574 | 37 | – | 16 450 |
| 12 445 | 191 | 1 324 | 266 775 |

| | | | |
|----------------|----------------|--------------|------------------|
| # | 63 R/ha | – | 53 000 |
| # | 123 R/ha | – | 20 400 |
| # | 75 R/ha | – | 8 950 |
| # | 66 R/ha | – | 11 050 |
| | 82 R/ha | | 93 400 |
| 475 903 | | 3 066 | 4 345 100 |

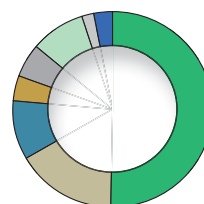
| | | | |
|----------------|----------|--------------|------------------|
| 9 988 | – | – | 106 863 |
| 9 988 | – | – | 106 863 |
| 717 | – | – | 24 185 |
| 717 | – | – | 24 185 |
| 486 608 | – | 3 066 | 4 476 148 |

Geographic profile

Value

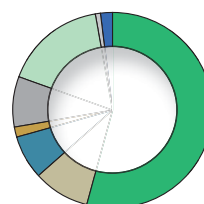


Total GLA (m²)*



* The specialised property comprises 8,382 hectares of industrial farms and the inclusion of this in the analysis by GLA would not provide meaningful analysis of the portfolio as a whole.

Total gross rental



Tenant analysis profile

| | Based on rental % | Based on GLA (m ²) % | Based on GLA (ha) % |
|---|-------------------------|--|---------------------------|
| A | 80,3 | 92,0 | 100,0 |
| B | 6,9 | 2,7 | – |
| C | 12,7 | 5,4 | – |
| | 100,0 | 100,0 | 100,0 |

Heriot's policy is to grade tenants on the following basis:

A = National and provincial government, large metro municipalities, national retailers and large blue-chip companies.

B = Medium companies and franchisees.

C = Other small tenants. These comprise approximately 177 tenants.

Weighted average lease escalation

| Sector | Based on GLA (m ²)* % | Based on GLA (ha)* % |
|-------------|---|----------------------------|
| Retail | 7,0 | – |
| Office | 8,1 | – |
| Industrial | 7,8 | – |
| Specialised | – | 6,0 |
| | 7,6 | 6,0 |

Lease expiry profile

| | Total GLA (ha)* % | Total GLA (m ²)* % | Total gross rental % |
|------------------------|-------------------------|--------------------------------------|----------------------------|
| Total portfolio | | | |
| Vacant | – | 0,6 | – |
| Monthly | – | 0,1 | 0,3 |
| June 2019 | – | 7,9 | 13,1 |
| June 2020 | – | 19,0 | 19,7 |
| June 2021 | – | 17,8 | 23,1 |
| June 2022 | – | 3,4 | 4,4 |
| June 2023 | – | 19,9 | 18,0 |
| > June 2023 | 100,0 | 31,2 | 21,4 |
| Total | 100,0 | 100,0 | 100,0 |

* The specialised property comprises 8,382 hectares of industrial farms and the inclusion of this in the analysis by GLA would not provide meaningful analysis of the portfolio as a whole.

Lease expiry profile continued

| | Total GLA (m ²) % | Total gross rental % |
|-------------------|-------------------------------------|----------------------------|
| Industrial | | |
| Vacant | – | – |
| Monthly | – | – |
| June 2019 | 2,7 | 2,0 |
| June 2020 | 18,7 | 18,8 |
| June 2021 | 18,4 | 27,8 |
| June 2022 | 2,0 | 2,2 |
| June 2023 | 22,6 | 24,3 |
| > June 2023 | 35,5 | 24,8 |
| Total | 100,0 | 100,0 |

Retail

| | | |
|--------------|--------------|--------------|
| Vacant | 1,2 | – |
| Monthly | 0,3 | 0,5 |
| June 2019 | 19,9 | 21,6 |
| June 2020 | 21,4 | 22,6 |
| June 2021 | 17,6 | 22,3 |
| June 2022 | 6,9 | 6,4 |
| June 2023 | 14,4 | 14,3 |
| > June 2023 | 18,2 | 12,2 |
| Total | 100,0 | 100,0 |

Office

| | | |
|--------------|--------------|--------------|
| Vacant | 10,6 | – |
| Monthly | – | – |
| June 2019 | 2,9 | 5,8 |
| June 2020 | – | – |
| June 2021 | 2,5 | 4,6 |
| June 2022 | – | – |
| June 2023 | 11,3 | 18,3 |
| > June 2023 | 72,7 | 71,2 |
| Total | 100,0 | 100,0 |

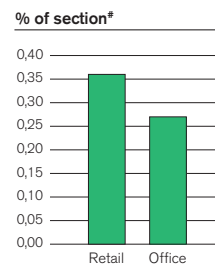
| | Total GLA (ha)* % | Total gross rental % |
|--|-------------------------|----------------------------|
|--|-------------------------|----------------------------|

Specialised

| | | |
|--------------|--------------|--------------|
| > June 2023 | 100,0 | 100,0 |
| Total | 100,0 | 100,0 |

* The specialised property comprises 8,382 hectares of industrial farms and the inclusion of this in the analysis by GLA would not provide meaningful analysis of the portfolio as a whole.

Vacancy analysis profile based on GLA (m²)



* At the reporting date, there were no vacancies in the industrial or specialised properties.



Chairman's report



Dave Friend
Chairman

At the reporting date, Heriot's total property portfolio comprises 42 properties valued at R4,5 billion.

The value of the portfolio is expected to exceed the R5,0 billion mark in the near future.

It is my pleasure to present Heriot's first integrated report together with the group's maiden results for the 13-month period ended 30 June 2018.

Heriot was founded by Steven Herring in 1998 for the purpose of growing a property portfolio to generate sustainable long-term cash flows from blue-chip tenants. Heriot's debut into the property market was by way of the acquisition of an industrial property that was underpinned by a triple net, long-term lease. This acquisition facilitated quick growth of its industrial asset base and in 2003, Heriot diversified its portfolio with the development of a 1 500m² retail centre. The company continued to expand its footprint in the retail sector through the development of retail centres in CBDs, townships and rural areas and today, Heriot owns twelve retail properties with a gross lettable area of 137 345m² that focus on the mass market, *bringing shopping to the people*.

Results

Despite the tough economic conditions that currently prevail in South Africa, the portfolio was resilient, producing distributable earnings that marginally exceeded the forecast distribution, due mainly to the refinancing of secured borrowings at more attractive interest rates and improved cash management.

At 30 June 2018, the net asset value of R11,59 per share had increased by R1,59 per share over the listing price of R10,00 per share. This increase is largely attributable to an increase of 7,5% in the value of investment properties since listing and to cash generated from operations since listing.

Funding

During the reporting period, Heriot restructured a material portion of the company's funding in terms of which amortising facilities were converted into interest only facilities, loan terms were extended and more attractive interest rates were secured. For the period under review, the average cost of borrowings was 9,07% and 45% of the interest rate risk had been hedged in terms of interest rate swaps and fixed interest rate loans. At 30 June 2018, the property portfolio was 36,3% geared. After taking cash resources into account, the gearing reduces to 33,7%.

As a result of refinancing that took place subsequent to the reporting date, the average interest rate for 2019 is expected to reduce to 8,85%.

Market conditions

The South African economy slipped into a technical recession during the second quarter of 2018, shrinking by 0,7% quarter-on-quarter as a result of a fall-off in activity in the agriculture, transport, trade, government and manufacturing industries. While growth is expected in the next two quarters of the 2018 calendar year, these expectations remain low.

South African consumers remain under pressure with less disposable income due to increases in VAT, electricity, fuel and a significant depreciation in the rand. Operating costs, and in particular electricity, continue to increase at levels above inflation which is of growing concern to both property owners and tenants. The economic downturn has created an environment in which landlords may be unable to demand meaningful escalations in rentals as tenants are unlikely to be able to absorb the rapidly rising cost of occupation.

However, Heriot's exposure to low and middle income consumer groups acts as a defensive hedge given the assets' dominance in their respective regions and the basket of goods typically purchased by this demographic. In addition, Heriot's portfolio is anchored by a high percentage of national tenants with long-term leases that ensures the sustainability of Heriot's cash flows.

While the prime rate of interest is expected to remain at current levels in the short term, the board has committed to continually gauge market sentiment and to reduce Heriot's exposure to changes in interest rates at the appropriate time.

Growth strategy

Heriot's primary objective is to identify value-enhancing opportunities within the industrial, retail and residential sectors in South Africa to create a stable and diverse portfolio of assets capable of generating a secure income stream and capital growth.

Heriot will continue to further optimise, enhance and grow its current portfolio through the redevelopment of the Adderley Street and Mowbray properties in Cape Town, into residential apartments and student accommodation respectively, and by focusing on brownfield retail development opportunities.

Governance structure

The governance structures that were implemented ahead of the listing on the JSE have been detailed in this report and the board is dedicated to enhancing and improving these over time.

Prospects

Heriot will continue to focus on a disciplined approach to the acquisition and development of high quality properties that offer meaningful capital and income growth. In the year ahead, the emphasis will be on concluding a number of the transactions that are in the pipeline in order to grow the portfolio in a manner that is value enhancing for shareholders. The board is confident of achieving distribution growth for 2019 of between 9% and 11% on its distributable earnings for the year ended 31 May 2018, provided that there is no significant change in current trading conditions.

Appreciation

I wish to extend my thanks to Steven Herring, the group's founder and previous CEO, for bringing a portfolio of this calibre to market. I also thank the executive team and the Heriot staff for their commitment and hard work and my fellow board members for their input during the period under review. Thank you to our shareholders, tenants and all business partners for your ongoing support.



Dave Friend
Chairman

25 October 2018



CEO and CFO's report



Richard Herring
Chief executive officer



Janys Finn
Chief financial officer

We are pleased to report that Heriot has achieved a successful first year as a listed company, exceeding the group's forecasts and satisfying market expectations despite a tough macroeconomic environment with rising inflation and slowing economic growth. Our strategy is well on track to build a diversified and resilient portfolio of properties yielding strong, secure income and high capital returns.

Results

Subsequent to listing, Heriot changed its year-end from 31 May to 30 June and in compliance with the JSE Listings Requirements, is required to publish results for the group for the year ended 31 May 2018 and for the 13 months ended 30 June 2018.

Heriot's total distributable earnings for the year ended 31 May 2018 of R187,5 million exceeds the forecast distributable income of R183,2 million, as reflected in the pre-listing statement issued on 17 July 2017 ("PLS"), by R4,3 million, mainly

due to the refinancing of secured borrowings at more attractive interest rates and improved cash management. Total distributable earnings for the 13 months ended 30 June 2018 amounted to R202,9 million.

Heriot's distributable earnings for the year ended 31 May 2018 of 73,27 cents per share exceeds the forecast distribution of 71,67 cents per share by 1,60 cents per share or 2,2%. At 30 June 2018, the distributable earnings increased by 6,00 cents per share to 79,27 cents per share for the 13 months then ended.

The board declared a final dividend of 44,18 cents per share which, together with the interim dividend of 35,09 cents per share, equates to a total dividend of 79,27 cents for the 13 months ended 30 June 2018.

At 30 June 2018, the net asset value per share had increased by R1,59 over the listing price of R10 per share to R11,59 per share. The increase relates predominantly to the cash generated by operations for the period under review and the increase in the fair values of investment properties.

Portfolio review

At 30 June 2018, Heriot's investment property portfolio was valued at R4,345 billion, an increase of R326,6 million, or 7,5%, on the acquisition cost. The property portfolio comprises 41 investment properties spread throughout southern Africa with a concentration in the retail and industrial sector, representing 51,5% and 37,5% by value respectively.

The industrial properties are predominantly underpinned by triple net leases. Costs are well contained at a net cost to income ratio for retail properties of 8,3%. Receivables are tightly managed and the total allowance for doubtful debts of R0,6 million covers 77% of amounts outstanding for more than 90 days at the reporting date.

The portfolio maintained an almost full occupancy for the period under review and at 30 June 2018, only 0,6% of the portfolio was vacant. Subsequent to the reporting date, the vacancy reduced to 0,4% with the take-up of 796m² office space at an average rental of R200/m².

Over and above the investment property portfolio, the group owns the Adderley Street property acquired for redevelopment and the head office from which it operates. The Adderley Street property is accounted for as property under development and is carried at cost which, at the reporting date, amounted to R106,8 million. The owner-occupied property is accounted for as property, plant and equipment and is carried at an amortised cost of R24,2 million.

Funding

Heriot's secured borrowings of R1,615 billion at 30 June 2018 equates to a gearing ratio of 36,3% and the average remaining term of the debt was 1,8 years. The average cost of borrowing was 9,07% for the period under review and 45% of borrowings have been fixed. Net of cash, the gearing ratio was 33,7%.

In July 2018, R460 million of secured borrowings was refinanced, reducing the average cost of debt to 8,85% and increasing the average term of debt to 3,2 years. Post the refinance, 49% of Heriot's borrowings are from Nedbank Limited and 29% from Standard Bank. The remaining funding has been secured from Sanlam and Rand Merchant Bank.

Growth strategy

The company continues to seek value-enhancing opportunities within the industrial, residential and retail sectors in South Africa. Further, Heriot will enhance the group's portfolio through the redevelopment of the Adderley Street property, situated in Cape Town, into residential apartments. This redevelopment is expected to be completed in May 2019.

The Mowbray property, primarily located near the University of Cape Town, has been earmarked for a redevelopment into student accommodation. We are currently considering a number of feasibilities in this regard and are confident that a redevelopment programme will commence within the 2019 financial year.

Corporate social responsibility

In line with Heriot's objective of making a positive, sustainable impact on the communities in which Heriot operates, the group has introduced initiatives to improve the quality of lives of these disadvantaged communities. Additional details of these initiatives have been detailed in the report of the social and ethics committee on page 29 of this integrated report.

Appreciation

We wish to thank Steven Herring for his leadership and vision that has created the Heriot of today. We look forward to his continued guidance and insights on the board. We would also like to thank the board and the broader Heriot team whose hard work and commitment has contributed to our successful maiden results.

And finally, we thank our shareholders and funders for their continued support. We look forward to building Heriot with you all.



Richard Herring
Chief executive officer



Janys Finn
Chief financial officer

25 October 2018



Corporate governance report

Heriot is committed to upholding the highest standards of ethics, transparency and good governance while pursuing wealth and value creation. The board is the focal point of good governance, always acting in the best interests of the company while leading effectively and with integrity. The board is committed to implementing those governance principles and practices recommended by the King IV Report on Corporate Governance for South Africa 2016 ("King IV") that align with Heriot's strategies and policies.

The board

Ultimate control of the group rests with the board as a whole while the executives are responsible for the proper execution of the group strategy.

The board has adopted a charter that sets out the practices and processes it follows to discharge its responsibilities. The charter specifically describes the roles, functions, responsibilities and powers of the board, the chairman, as well as the executive and non-executive directors. The charter deals with matters such as corporate governance, directors' dealings in securities, declarations of conflicts of interest, board meeting procedures and record-keeping for the nomination, appointment, induction, training and evaluation of directors. There is an appropriate balance of power and authority on the board so that no individual has unfettered decision-making powers and no individual dominates the board's deliberations and decisions. Quarterly board meetings are held with additional meetings convened where necessary.

The board comprises seven directors; two executive directors, three independent non-executive directors and two non-executive directors. The roles of the chairman and the CEO are separate. The non-executive directors and the independent non-executive directors contribute a wide range of relevant industry skills, knowledge and experience, to the board's decision-making processes.

At the date of this report, the directors are as follows:

Non-executive directors

Stephen David Friend (*Chairman*)

Steven Bernard Herring

Independent non-executive directors

Selwyn Joel Blieden (*Lead independent director*)

Trevor John Cohen

Nelson Ngale

Executive directors

Richard Lawrence Herring (*Chief executive officer*)

Jany Ann Finn (*Chief financial officer*)

In accordance with the JSE Listings Requirements, all directors have attended a formal director induction programme with the Institute of Directors.

After recommendation by the remuneration and nomination committee, board appointments are considered by the board as a whole in accordance with the company's policy for appointments to the board. Appointments are made in a formal and transparent manner and any director appointed during the year is required to have the appointment confirmed by shareholders at the next general or annual general meeting following their appointment.

In line with the provisions of the company's memorandum of incorporation, one-third of both non-executive and executive directors are required to retire annually at the company's annual general meeting ("AGM") and all directors appointed by the board during the year are required to retire at the AGM. In both cases, directors, if eligible, may make themselves available for re-election. In line with this requirement, all directors will have their appointments confirmed at the first AGM of the company to be held on 7 December 2018.

Directors' personal interests

A full list of directors' interests is maintained. At the beginning of each board meeting, directors are required to confirm that the interests as previously disclosed, remain current. In line with best practice and section 75 of the Companies Act, directors are required to recuse themselves from any discussion and decision in which they have a financial interest.

Functions and responsibilities of the board

The board confirms that it is responsible for ensuring the following functions as set out in the board charter:

- Adoption of strategic plans and ensuring that these plans are implemented by the executives;
- Providing strategic direction to the company, appointing the chief executive officer and ensuring that a succession plan is in place;
- Monitoring of operational performance of the business against predetermined budgets and targets;
- Reviewing and approving the financial objectives, plans and actions, including significant capital allocations and expenditure;

- Ensuring that risk is governed in a manner that supports the company to achieve its strategic objectives;
- Ensuring compliance with all relevant laws, regulations and codes of business practice;
- Maintaining good corporate governance;
- Ensuring that the group's affairs are conducted in a responsible and professional manner;
- Upholding the board's responsibilities to all stakeholders;
- Reviewing processes and procedures to ensure the effectiveness of the company's internal systems of control so that its decision-making capability and the accuracy of its reporting are maintained at a high level at all times;
- Ensuring the integrity of the group's integrated report; and
- Establishing a framework for the delegation of authority.

Board committees

The board has delegated certain responsibilities to the following committees:

- Audit and risk committee;
- Remuneration and nomination committee;
- Investment committee; and
- Social and ethics committee.

While overall responsibility and accountability remains with the board, these committees assist the board in discharging its responsibilities and duties. Full transparency and disclosure of committee deliberations is encouraged and the minutes of all committee meetings are made available to all directors. Directors are encouraged to take independent advice at the company's expense for the proper execution of their duties and responsibilities, after following an approved procedure. The board has unrestricted access to the external auditor, professional advisors, the services of the company secretary, the executives and the staff of the company at any given time.

Audit and risk committee

Members

Selwyn Joel Blieden (*Chairman*)

Trevor John Cohen

Nelson Ngale



The chief executive officer, chief financial officer and representatives from the external auditor and designated advisors attend the meetings by invitation.

The board nominates members from its number for appointment to the audit and risk committee ("ARC"). The appointments are subject to the approval and confirmation of shareholders annually at the company's AGM. The ARC meets at least three times per year and special meetings are convened as and when required. The ARC is governed by a board-approved charter that is reviewed annually.

ARC members have unfettered access to all information, documents and explanations required in support of the discharge of their duties, as well as to the external auditor. The responsibilities of the ARC include:

- Reviewing the finance function of the company on an annual basis;
- Considering and confirming the independence and objectivity of the external auditor;
- Oversight of the audit process and relations with the external auditor;
- Assisting the board in discharging its duties relating to the safeguarding of assets and the operation of adequate systems and internal control processes;
- Ensuring that an effective plan for risk management is implemented;
- Oversight of the preparation of accurate financial reports and statements in compliance with all applicable legal requirements and accounting standards; and
- Ensuring compliance with good corporate governance best practices.

The board is satisfied that the members of the ARC have the skills and experience necessary to contribute meaningfully to the ARC's deliberations. Brief CVs in respect of each member of the ARC are available to view on page 3 of the integrated annual report.

Remuneration and nomination committee

Members

Selwyn Joel Blieden (*Chairman*)

Trevor John Cohen

Steven Bernard Herring

The chief executive officer and chief financial officer attend the meetings by invitation.

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 ("Remco") comprising two independent non-executive directors and one non-executive director. The terms of reference of Remco detail the formal and transparent procedures for appointments to the board as well as for directors' and executives' remuneration. In line with the recommendations of King IV, Remco is chaired by an independent non-executive director.

In terms of the board-approved charter, the Remco responsibilities include:

Remuneration matters

- Determine and agree the framework for the remuneration of the chief executive officer, the chief financial officer and other members of the executive management team;
- Within the terms of the agreed framework, determine the total remuneration package of the chief executive officer and each executive director including, where appropriate, bonuses, incentive payments and share options and/or conditional rights;
- Approve the service agreements for the chief executive officer and the executive directors, termination payments and compensation commitments;
- Review appropriate market information regarding remuneration-related matters;
- Oversee any major changes in employee benefit structures throughout the company;
- Produce a remuneration report for inclusion in the company's integrated report; and
- Make recommendations to the board on the fees of the chairman and the non-executive directors, for subsequent approval by the company's shareholders in general meeting.

Nomination matters

- Identify, evaluate and recommend appointees to the board and board committees;
- Consider, on a periodic basis (and at least annually) the composition of the board and make recommendations regarding the composition and membership of the board, with account given to the needs of the board and any "gaps" identified in terms of diversity (skills, experience, race, gender etc.);
- Conduct periodic evaluations of the effectiveness and performance of the board as a whole and consider the individual contribution of each non-executive director;
- Assess the board's training and development needs;
- Ensure that a robust induction programme is in place for new appointments to the board;
- Review the performance of the chief executive officer and executive directors; and
- Develop a succession plan in respect of the chief executive officer and executive directors.

Remco's first meeting was held after the end of the reporting period, on 5 September 2018. All members attended the meeting.

There was no change to the remuneration as detailed in the PLS released on 17 July 2017 and there have been no additional appointments during the period under review.

Investment committee

Members

Steven Bernard Herring (*Chairman*)

Jany Ann Finn

Richard Lawrence Herring

All members of the investment committee ("Investco") have extensive experience in the property market.

Investco assists the board with regard to investment decisions relating to the acquisition and disposal of property in line with its stated strategy. Investco's activities are governed by a charter that has been approved by the board and are focused on:

- sustaining income growth and capital appreciation;
- making yield-enhancing acquisitions that provide a platform for growth; and
- identifying properties for disposal that no longer fit within the group's investment criteria, geographically or otherwise.

Social and ethics committee

Members

Nelson Ngale (*Chairman*)

Stephen David Friend

Jany Ann Finn

Richard Lawrence Herring attends meetings by invitation.

The social and ethics committee (the "SEC") is a statutory committee established pursuant to the provisions of section 72 of the Companies Act and Regulation 43 of the Companies Regulations, 2011. The duties and responsibilities of the SEC are set out in formal terms of reference which has been approved by both the committee and the board. The main duties of the committee are to review and approve the policy and strategy for the management of social, ethical and transformational matters in the group.



Board and committee attendance

The attendance register of directors for each board and committee meeting for the period ended 30 June 2018 is set out below:

The first meeting of Remco was held after the end of the reporting period on 5 September 2018 and was attended by all members of the Remco. To date, there have been no formal meetings of the Investco.

| | | Meeting date | | |
|------------------------------------|------------------------------------|-----------------|-----------------|------------|
| | | 17 October 2017 | 6 February 2018 | 2 May 2018 |
| Board | | | | |
| Stephen David Friend (Chairman) | Non-executive director | ✓ | ✓ | ✓ |
| Selwyn Joel Blieden | Lead independent director | ✓ | ✓ | ✓ |
| Trevor John Cohen | Independent non-executive director | ✓ | ✓ | ✓ |
| Jany Ann Finn | Chief financial officer | ✓ | ✓ | ✓ |
| Richard Lawrence Herring | Chief executive officer | ✓ | ✓ | ✓ |
| Steven Bernard Herring | Non-executive director | ✓ | ✓ | ✓ |
| Nelson Ngale | Independent non-executive director | ✓ | ✓ | ✓ |
| Audit and risk committee | | | | |
| Selwyn Joel Blieden (Chairman) | Lead independent director | n/a | ✓ | ✓ |
| Trevor John Cohen | Independent non-executive director | n/a | ✓ | ✓ |
| Nelson Ngale | Independent non-executive director | n/a | ✓ | ✓ |
| Jany Ann Finn | Chief financial officer | n/a | # | # |
| Richard Lawrence Herring | Chief executive officer | n/a | # | # |
| Stephen David Friend | Non-executive director | n/a | # | |
| Social and ethics committee | | | | |
| Nelson Ngale (Chairman) | Independent non-executive director | n/a | n/a | ✓ |
| Jany Ann Finn | Chief financial officer | n/a | n/a | ✓ |
| Stephen David Friend | Non-executive director | n/a | n/a | ✓ |
| Richard Lawrence Herring | Chief executive officer | n/a | n/a | # |

✓ member

attended by invitation

Risk management

The board retains overall responsibility for risk management and for the definition of the company's overall risk strategy and tolerance, having considered the recommendations of the audit and risk committee.

| Risk factor | Impact of risk | Mitigation strategies |
|---|---|---|
| Investment property portfolio | | |
| Inability to source suitable properties to acquire | Inability to grow the portfolio | Regular interaction with key people in the industry |
| Damage to investment property | Financial loss to the company and reduced asset value | Comprehensive insurance policy based on the replacement cost of investment properties Regular review of insurance policy and insured values |
| Inadequate and/or irregular maintenance of investment property | Devaluation and/or depreciation of properties due to lack of maintenance | Implementation of a programme for ongoing maintenance Budget to allow for adequate and regular maintenance of investment property Regular building inspections by portfolio managers, property managers, asset manager and executive management |
| Operational performance | | |
| Vacancies and rental default | Rental growth, capital appreciation and return to shareholders may be adversely impacted by increased vacancies and tenant defaults | Strong focus on tenant relationships to ensure retention Targeted leasing strategy Early renewal negotiations Effective credit control procedures for defaulting tenants |
| Financing | | |
| Interest rate risk | Increased cost of borrowings will reduce return to shareholders | Continual review of policy regarding fixed interest rates and hedging Negotiating with banks to reduce cost of borrowings |
| Availability of finance for property acquisitions and redevelopment | Inability to grow the portfolio | Regular interaction with bankers to ensure the availability of debt for funding Facilitate access to equity through engagement with analysts and fund managers to create awareness of Heriot |



| Risk factor | Impact of risk | Mitigation strategies |
|--|---|---|
| Financing continued | | |
| Refinance risk | Risk of refinancing when existing debt facilities near expiry | Maintain gearing at below 40% loan to value Stagger debt expiry profile Policy of being multi-banked |
| Governance | | |
| Non-compliance with regulations | Suspension or termination of the company's listing Failure to comply with key laws and regulations of the jurisdictions in which the entity operates may result in fines and penalties, reputational harm or potential loss of REIT status | Active monitoring by the designated advisor and company secretary Management is encouraged to consult with specialists to ensure compliance with all laws |
| Skills and system | | |
| Retention of key staff and adequate human resourcing | Loss of key staff or being under-resourced will impact the ability to achieve the group's objectives effectively | Executive management constantly assesses the capacity of available staff and closely monitors staffing requirements as the business grows All staff members are awarded short-term incentive bonuses On an annual basis, staff are invited to participate in a long-term share purchase scheme that aligns the interests of staff members with the performance of the company |
| Information technology ("IT") failure | Loss of revenue as a result of loss of data Impact on the company's reputation in the event that the data is not recovered promptly | Support of appropriately skilled IT resources and contractors |
| Fraud and errors | Errors go undetected or fraud committed by an employee | Regular review of internal controls |

King IV

Application register

Heriot has benchmarked the company's governance practices against the principles of King IV. This King IV application register explains the extent to which Heriot complies with King IV. It should further be noted that in terms of the JSE Listings Requirements, companies that are listed on AltX are only required to comply with the disclosure requirements set out in Part 5.3 comprising principles 6 to 10. However, the board has decided to embrace all King IV principles as set out below:

| King IV principle | Application |
|---|--|
| Governance outcome: Ethical culture | |
| Principle 1: Ethical leadership | |
| The governing body should lead ethically and effectively. | <p>The board has approved a code of ethics ("Code") for Heriot that ensures that the conduct of both the board and management reflects Heriot's obligation to behave as a responsible corporate citizen in compliance with the Companies Act and King IV.</p> <p>Measures are in place to ensure that all board members have sufficient working knowledge of the company, its industry, its operating context and all key laws, rules, codes and standards.</p> |
| Principle 2: Organisation values, ethics and culture | |
| The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture. | <p>The board has adopted a code of ethics which clearly sets out the business practices for the company to follow as well as the standards of behaviour for all persons within the company.</p> <p>The board ensures that compliance with its code is integrated into the strategy and operations, conduct and the way Heriot treats its stakeholders.</p> |
| Principle 3: Responsible corporate citizenship | |
| The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen. | <p>The board has undertaken a full review of the company's position with regard to being a responsible corporate citizen. This includes a review of the company's remuneration policies and work environment.</p> <p>Heriot is a socially responsible company that is committed to sustainable transformation in line with the objectives of the Broad-Based Black Economic Empowerment Act (B-BBEE) and the National Development Plan. The company promotes a non-racial and culturally diverse philosophy.</p> <p>Based on its prelisting financial position, assets and annual reporting, the company is an exempted enterprise Level-4 B-BBEE contributor with a 100% procurement recognition for the current integrated reporting. The company is taking steps to assess each of its subsidiaries in terms of the Amended Property Sector Codes requirements and reporting planned under the Generic Scorecard.</p> |



| King IV principle | Application |
|---|--|
| Governance outcome: Performance and value creation | |
| Principle 4: Strategy, implementation and performance | |
| 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. | <p>The board takes account of the interests and expectations of Heriot's legitimate stakeholders in its decision-making while striving to act in the best interests of the company. Management has processes in place to define and align the group's short, medium and long-term macroeconomic, financial, operational and strategic objectives with the company's risk appetite.</p> <p>Policies and operational plans approved by the board include financial, ethical, compliance, sustainability, performance and risk measures.</p> |
| Principle 5: Reports and disclosure | |
| The governing body 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. | <p>The board assumes responsibility for the development and implementation of Heriot's strategy which is aligned with its business model. Heriot's integrated report reflects the company's thinking in this regard.</p> <p>Heriot's Investco assists the board with regard to investment decisions relating to the acquisition and disposal of property in line with its stated strategy. The terms of reference of the investment committee, that have been approved by the board, are broadly:</p> <ul style="list-style-type: none"> • to make yield-enhancing acquisitions that provide a platform for growth; and • to dispose of properties that no longer fit within the group's investment criteria, geographically or otherwise. |
| Governance outcome: Adequate and effective control | |
| Principle 6: Role of the governing body | |
| The governing body should serve as the focal point and custodian of corporate governance in the organisation. | <p>The board's responsibilities, membership requirements and procedural conduct are documented in a board charter that is reviewed from time to time.</p> <p>The board charter allows all directors to access any company information that they might require.</p> |

| King IV principle | Application |
|-------------------|-------------|
|-------------------|-------------|

Governance outcome: Adequate and effective control continued

Principle 7: Composition of the governing body

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 company recognises the value that diversity in the composition of the board of directors brings to the company. The board recognises that diversity of skills, experience, background, knowledge, thought, culture, race and gender strengthens the company's ability to effectively carry out its duties and add value to the group. The board has adopted a diversity policy and is committed to the principle of diversity (including race and gender diversity) at board level. All new appointments to the board will be considered in the context of achieving diversity targets at board level whilst keeping the operational requirements of the company in mind, the board has not set any targets in this regard.

In determining the number of directors needed, the board considers factors such as the appropriate mix of business, commercial and industry experience and skills and decides on the optimum combination of executive, non-executive and independent non-executive members. The board comprises a majority of non-executive directors and the roles of the chairman and the CEO are separate. As presently constituted, the board is diverse and experienced and has a wealth of knowledge of the property industry.

The board has unrestricted access to the external auditors, professional advisors, the services of the company secretary and to the executives and the staff of the company at any given time. Further, the board has unrestricted access to all information, records, documents and property of the company.

Principle 8: Committees of the governing body

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.

The board has established an audit and risk committee, a remuneration and nomination committee, an investment committee and a social and ethics committee. Each committee has a board-approved charter that defines its roles and responsibilities.

Principle 9: Performance evaluations

The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.

The board will introduce annual self-evaluation processes in respect of the board and its sub-committees to satisfy itself that it and its sub-committees operate effectively. This will be done during the 2019 financial year and reported on in the next integrated report.



| King IV principle | Application |
|--|--|
| Governance outcome: Adequate and effective control continued | |
| Principle 10: Delegation to management | |
| The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities. | <p>The CEO, Mr Richard Lawrence Herring, was appointed by the board on 18 August 2017 and is responsible for executing strategy and for the day-to-day business of the company. The CEO is not a member of the remuneration committee or the audit and risk committee. The board is in the process of formalising a Delegation of Authority ("DoA") framework which will define matters reserved for the board and those delegated to management. The framework will be finalised during the 2019 financial year.</p> <p>Heriot complies with the provisions of the Companies Act in relation to the appointment and removal of the company secretary. The role and function of the company secretary, who is independent from the board, is formalised.</p> |
| Principle 11: Risk and opportunity governance | |
| The governing body should govern risk in a way that supports the organisation in setting and achieving strategic objectives. | <p>The board is ultimately responsible for setting the risk appetite of the group, identifying strategic risks and opportunities and managing these. The board has delegated the management of risk to the group's management team, which executes this responsibility through processes within an established risk management policy and governance framework and reports to the audit and risk committee in this regard.</p> <p>The board has established an investment committee to assist in its investment decisions and the audit and risk committee guides the board in terms of ensuring that its funding strategies are in line with the group's risk appetite.</p> |
| Principle 12: Technology and information governance | |
| The governing body should govern technology and information in a way that supports the organisation in setting and achieving its strategic objectives. | <p>The board is responsible for IT governance. The CEO directs, controls and measures the IT activities and processes of the group. Internal IT controls are assessed by the audit and risk committee on behalf of the board.</p> <p>There is a flat infrastructure with an on-site file server, with information back-ups managed internally. There are strict log-in processes to access emails which are hosted off-site by an external third party service provider.</p> <p>The responsibility for key technology activities and processes is outsourced.</p> |
| Principle 13: Compliance governance | |
| 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 ensures compliance with all relevant South African legislation. It also ensures compliance with the JSE Listings Requirements and King IV. The group also recognises and utilises the IIRC's framework and the Global Reporting Initiative ("GRI") guidelines for establishing and reporting on non-financial capitals and sustainability. |

| King IV principle | Application |
|-------------------|-------------|
|-------------------|-------------|

Governance outcome: Adequate and effective control continued

Principle 14: Remuneration governance

The governing body 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.

Remco provides guidance to the board as regards the company's remuneration policy which is designed to attract, retain and motivate employees to achieve the strategic objectives of the organisation. The full remuneration policy as well as the remuneration implementation report are contained in the remuneration report on pages 27 and 28 of this integrated annual report.

Principle 15: Assurance

The governing body 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.

The board has approved a charter that mandates the audit and risk committee to oversee internal controls established not only for financial matters, but also for operational, compliance and sustainability issues.

Governance outcome: Trust, good reputation and legitimacy

Principle 16: Stakeholders

In the execution of its governance role and responsibilities, the governing body 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.

Stakeholders are integral to Heriot and stakeholder risks and concerns are therefore carefully considered when reviewing and refining strategy. The CEO and CFO regularly engage with shareholders, tenants and financiers and have commenced engaging with analysts.



Report of the audit and risk committee

The audit and risk committee ("ARC" or "committee") is an independent statutory committee to which duties are delegated by the board. The ARC is chaired by independent non-executive director, Selwyn Blieden, and further comprises two independent non-executive directors, Trevor Cohen and Nelson Ngale. The board is satisfied that these directors act independently for the purpose of the committee. The CEO, CFO and representatives of the external auditor and designated advisors are present at meetings by standing invitation.

The committee is governed by a formal charter which is reviewed annually. The committee has conducted its affairs in compliance with its terms of reference and has discharged its responsibilities contained therein.

The committee meets at least three times a year and special meetings are convened when necessary. Details of attendance by members of meetings, for the 13-month period ended 30 June 2018, are set out on page 18.

The committee has satisfied itself that:

- Grant Thornton and Paul Badrick, the designated auditor and individual audit partner, are independent of the company and further confirm that the suitability for their appointment is in accordance with paragraph 3.84(g) (iii) of the JSE Listings Requirements;
- the CFO, Janys Finn, is competent and that the finance function has adequate resources and sufficient expertise;
- the company secretary has the requisite skills and experience and has maintained an arm's length relationship with the board for the period under review;
- appropriate risk management processes are in place;
- executive management is in the process of documenting policies and procedures to cover key activities of the company including investment, asset management and capital expenditure which will be implemented during the 2019 financial year; and
- the company has established appropriate reporting procedures that are operating effectively.

The company has established a risk management policy that is in line with industry practice and that specifically prohibits the company from entering into any derivative transactions that are not in the ordinary course of Heriot's business. The committee has monitored compliance therewith.

The committee has reviewed the company's risk management approach and confirms that in its opinion, although further formalisation and documentation of relevant policies and procedures remain ongoing, activities undertaken by the executive management and current risk-related actions are adequate for Heriot, having regard to its size and range of activities.

The committee has obtained combined assurance from executive management, the independent non-executive directors and the external auditor and has recommended the annual financial statements for the period ended 30 June 2018 to the board for approval. The annual financial statements, which the board has approved, will be presented for discussion and adoption at the inaugural annual general meeting to be held on 7 December 2018.



Selwyn Blieden

Audit and risk committee chairman

25 October 2018

Report of the remuneration and nomination committee

I am pleased to present Heriot's remuneration report for 2018, a key objective of which is to describe the manner in which Heriot has developed and formalised its remuneration policy. To align with King IV, our report has been presented in three sections:

- Background statement;
- Overview of the remuneration policy; and
- The implementation report indicating the actual remuneration paid for the reporting period in accordance with the remuneration policy.

The remuneration policy and implementation report will be put to non-binding advisory shareholder votes at the upcoming annual general meeting of the company on Friday, 7 December 2018 ("AGM").

Background statement

A motivated and skilled management team is considered as being integral to the successful implementation of the company's strategic objectives and the remuneration policy is designed to attract and retain high calibre resources at all levels. We are committed to fair, responsible and transparent remuneration across the group.

The remuneration and nomination committee ("Remco") oversees all remuneration decisions, and in particular, determines the criteria necessary to measure the performance of executive management in discharging their functions and responsibilities. Pursuant to the committee's terms of reference, the committee is focused on ensuring that management are fairly but responsibly rewarded for their individual contributions and performance in respect of achieving the company's strategy.

Overview of remuneration policy

The remuneration policy for the upcoming year, which will be presented to shareholders for a non-binding advisory vote at the AGM, is outlined below. Should either the remuneration policy or the remuneration implementation report be voted against by shareholders exercising 25% or more of the votes exercised, the company will engage with shareholders to address legitimate and reasonable concerns raised on the remuneration policy and remuneration implementation report.

The remuneration policy is reviewed annually.

The remuneration applicable to executive management (including executive directors and

senior management) is comprised of three elements as follows:

- Guaranteed pay – a total guaranteed annual package;
- Short-term incentive – an annual cash bonus; and
- Share purchase scheme – loans are made available for the acquisition of Heriot shares.

Guaranteed pay

Executive management are remunerated in terms of their employment contracts that allow for a guaranteed annual package. There are no additional benefits or allowances payable. Our remuneration policy is to target the upper percentile of the market in respect of guaranteed pay, benchmarking against companies which are comparable in terms of size, market sector and complexity. Annual increases, awarded on the anniversary of employment, are determined with reference to inflation, individual performance and affordability by the company.

Short-term incentive

Executive management are awarded an annual cash bonus that is linked to both individual and company performance. The committee ensures that bonuses are only awarded if affordable by the company.

Performance measures in respect of executive remuneration will be formally determined during the 2019 financial year.

Share purchase scheme

On an annual basis, staff are invited to participate in a long-term share purchase scheme that aligns the interests of executive management with the performance of the company. The company offers loans to scheme participants to assist them in participating in this scheme, the features of which are broadly as follows:

- The loans bear interest at the group's average cost of borrowings;
- If the interest payable on the loans exceeds the dividends in respect of the period for which such dividends are declared, then such excess shall be added to and shall be deemed to form part of the loans;
- If the dividends payable on the plan shares in respect of the period for which such dividends are declared exceed the interest payable for such period, then such excess shall be made available to the participant unless the participant



has indicated that such excess is to be applied in reducing the loan;

- The loans are secured by a pledge of shares to the company. The company has recourse to a scheme participant to the extent that the value of the amount due by the participant falls below the loan owed by the participant on the date repayment of the loan falls due; and
- The company is entitled to demand payment of the debt outstanding in respect of any plan shares at any time after the expiration of 10 years from the date of the agreement.

The allocation of shares offered to scheme participants is determined by the committee from time to time and is subject to approval by the board.

Other than the initial allocation of 4 200 000 shares to scheme participants as disclosed in the pre-listing statement ("PLS"), no further shares have been offered or allocated to scheme participants. During the review period, 900 000 shares were acquired from employees who left the company's employ. These shares, which were acquired at the initial cost of R10 per share, are now held as treasury shares by the group.

At 30 June 2018, 9 700 000 shares, including the 400 000 treasury shares, are available for future

allocations to employees in terms of the share scheme.

Remuneration implementation report

An employment contract is in place for the chief financial officer in terms of which she is subject to a notice period of two months. The chief executive officer has no service contract but is also subject to two months notice. There are no restraint of trade clauses nor are there contractual obligations to executive management in terms of any separation payments.

Details of the remuneration paid to the executive directors for the 13 months ended 30 June 2018, which is in line with the remuneration policy, are set out in note 19 to the annual financial statements that form part of this integrated report.

Non-executive directors' fees comprise an annual fee in recognition of their ongoing fiduciary duties and responsibilities. Directors who serve on committees are paid an additional fee for the various committees of which they are members. Fees for 2018 were paid on the basis outlined in the company's PLS. Proposed fees for 2019 are set out below and are contained in the notice of annual general meeting ("AGM") for shareholder approval.

Non-executive directors' fees for the 13 months ended 30 June 2018 and proposed fees for 2019 are as follows:

| Committee | Actual* 2018 R | Proposed 2019 R |
|---|----------------------|-----------------------|
| Annual fee | | |
| Chairman of the board | 325 000 | 325 000 |
| Member of the board | 300 000 | 300 000 |
| Fee per meeting | | |
| Audit and risk committee member (including chairman) | 25 000 | 25 000 |
| Remuneration committee member (including chairman) | 25 000 | 25 000 |
| Social and ethics committee member (including chairman) | 25 000 | 25 000 |
| Investment committee member (including chairman) | 25 000 | 25 000 |

* Fees actually paid were pro-rated for the period of service during the reporting period.



Selwyn Blieden

Remuneration and nomination committee chairman

25 October 2018

Report of the social and ethics committee

The social and ethics committee (the “committee”) has been constituted to assist the board with social and ethics-related matters, as provided for in the Companies Act 71 of 2008 (as amended) (“the Companies Act”) and the Regulations thereto, as well as the recommendations of King IV and the JSE Listings Requirements.

The committee is governed by a charter and acts as the custodian and co-ordinator of activities and initiatives leading to the creation and maintenance of an ethical culture in the company. In terms of the charter, the committee is responsible for:

- the functions and responsibilities provided for in the Companies Act, including monitoring the company's activities with regard to matters relating to social and economic development, good corporate citizenship, the environment, health and public safety and the impact of the company's activities thereon, consumer relationships and the company's employment relationships;
- monitoring the company's efforts and activities relating to ethical leadership and good corporate citizenship;
- instilling an ethical culture in the company, including the incorporation of ethics into the operations of the business systems, procedures and practices by ensuring that the practices as set out in the Code of Conduct and Ethics are embodied in all dealings of the company;
- drawing matters within its mandate to the attention of the board as occasion requires; and
- reporting, through one of its members, to the shareholders at the company's AGM on the matters within its mandate.

Membership

The committee comprises two non-executive directors, Nelson Ngale (chair) and Dave Friend, and one member of the executive, the chief financial officer, Janys Finn. The chief executive officer, Richard Herring, attends meetings by invitation.

The committee, which held its first meeting on 2 May 2018, was attended by all members.

Activities

As a newly constituted committee, we are committed to addressing each of the responsibilities assigned to the committee in terms of the charter. In our first

year, we focused on our social responsibility through social investment programmes that were developed to benefit the local communities surrounding our business activities.

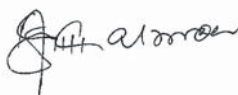
During the reporting period, Heriot supported the Dischem-led “Comfort for Dignity” campaign by reaching out to 16 schools in close proximity to our retail malls and donated 4 992 packs of sanitary towels, or 49 920 individual sanitary towels. Our support of this initiative, designed to reduce absenteeism and dropout rates in schools and increase opportunities for girls to complete their education with dignity, will be ongoing.

Further, Heriot awards many jobs and contracts for the servicing and maintenance of its malls to B-BBEE entities in the area, further illustrating the group's commitment to uplifting the local communities.

Heriot is committed to transformation within the sector in which it operates and the board is committed to compliance in terms of all statutory and regulatory reporting, including the B-BBEE Commission. Based on its prelisting financial position, assets and annual reporting, the company is an exempted enterprise Level-4 B-BBEE contributor with a 100% procurement recognition for the current integrated reporting. The company is taking steps to assess each of its subsidiaries in terms of the Amended Property Sector Codes requirements and reporting planned under the Generic Scorecard.

Going forward

Heriot is committed to the empowerment, development and growth of disadvantaged communities and will continue to seek ways to uplift these communities. In the forthcoming year, we are hoping to host several non-profit organisations in our retail malls, enabling these organisations to access the communities we serve.



Nelson Ngale


Social and ethics committee chairman

25 October 2018





Birch Acres Mall, Tembisa



Annual financial statements

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Directors' responsibility and approval

The directors are required by the Companies Act 71 of 2008 to maintain adequate accounting records and are responsible for the content and integrity of the consolidated financial statements and related financial information included in this report. It is their responsibility to ensure that the consolidated and separate company financial statements fairly present the state of affairs of the group and company as at the end of the financial year and the results of its operations and cash flows for the year then ended in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the consolidated and separate financial statements.

The consolidated and separate company financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial controls established by the group and company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the directors set standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the group and company and all employees are required to maintain the highest ethical standards in ensuring the group and company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the group and company is on identifying, assessing, managing and monitoring all known forms of risk within the group and company. While operating risk cannot be fully eliminated, the group and company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The group and company's audit and risk committee plays an integral role in risk management as well as overseeing the group and company's integrated reporting.

The Code of Corporate Practices and Conduct has been integrated into the group and company's strategies and operations.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the consolidated financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the group and company's cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, they are satisfied that the group and company has, or has access to, adequate resources to continue in operational existence for the foreseeable future.

The external auditors were given unrestricted access to all financial records and related data, including minutes of meetings of the board of directors and the committees of the board. The consolidated and separate company financial statements have been examined by the group and company's external auditors and their report is presented on pages 36 to 39.

The financial statements set out on pages 40 to 72, which have been prepared on the going concern basis, were approved by the board of directors on 29 August 2018 and were signed on its behalf by:



Dave Friend
Chairman



Richard Herring
Chief executive officer

Group company secretary's certificate

Declaration by the company secretary in respect of section 88(2)(e) of the Companies Act

In accordance with the provisions of sections 88(2)(e) of the Companies Act, I certify that for the year ended 30 June 2018, the company has lodged with the registrar of companies all such returns as are required of a company in terms of the Companies Act, and that all such returns are true, correct and up to date.



CIS Company Secretaries Proprietary Limited

Company secretary

25 October 2018



Directors' report

The directors have pleasure in submitting their report on the consolidated financial statements of Heriot REIT Limited ("Heriot" or the "company") and its subsidiaries for the 13 months ended 30 June 2018.

Nature of business

Heriot was incorporated and registered as a private company on 18 April 2017 and converted to a public company on 29 June 2017. Heriot is a property holding company that directly, and through its subsidiaries and its beneficial interest in Heriot Trust 1 and Heriot Trust 3, holds a diversified portfolio of properties across South Africa. Heriot's investment strategy is to purchase yield-enhancing assets within the commercial, industrial, and retail sectors in South Africa to create a stable and diverse portfolio of assets capable of generating secure and escalating free cash flows.

Heriot further manages a portfolio of retail assets located in Zambia.

The JSE granted Heriot a listing of all of its issued ordinary shares in the "Diversified REITs" sector on the AltX of the JSE under the abbreviated name: "Heriot", JSE share code: "HET" and ISIN: ZAE000246740 with effect from the commencement of trade on Monday, 24 July 2017.

Review of financial results and activities

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act. The operating results and state of affairs of the group and company are fully set out in the attached financial statements and do not, in our opinion, require any further comment.

Stated capital

The company's authorised share capital comprises 2 000 000 000 ordinary shares of no par value.

Pursuant to its listing, the company issued 251 437 235 shares at R10 each for the acquisition of its initial portfolio of assets. On 25 July 2017, a further 4 200 000 shares were issued in terms of the employee share purchase plan and on 14 December 2017, 658 623 shares were issued at R10 per share as part settlement for the acquisition

of a non-controlling interest in a portfolio of three retail assets based in the Western Cape.

Effective 1 December 2017, 900 000 shares were repurchased at R10 per share by the group from share scheme participants who had resigned from the company. These shares are now held as treasury shares by the group.

At the reporting date, the company had 256 295 858 shares in issue.

Dividends

The following dividends were declared by Heriot in respect of the 13-month period ended 30 June 2018:

- Dividend number 1 – an interim dividend of 35,09 cents per share for the six months ended 30 November 2017 was declared on 6 February 2018. The dividend totalling R89,934 million was paid to shareholders on 5 March 2018; and
- Dividend number 2 – a final dividend of 44,18 cents per share for the seven months ended 30 June 2018 was declared on 31 August 2018. The dividend totalling R113,232 million was paid to shareholders on 25 September 2018.

The dividends have been declared from distributable earnings and meet the requirement of a REIT "qualifying distribution" for purposes of section 25BB of the Income Tax Act 58 of 1962 (as amended).

The company uses distribution per share as the performance measure for trading statement purposes.

Directors

The directors of the company for the period under review and at the date of this report were as follows:

Executive

RL Herring (*Chief executive officer*)

– Appointed 18 August 2017

JA Finn (*Chief financial officer*)

– Appointed 18 April 2017

Non-executive

SD Friend (*Chairman*) – Appointed 7 June 2017

SJ Blieden (*Lead independent non-executive director*) – Appointed 7 June 2017

T Cohen (*Independent*) – Appointed 7 June 2017

SB Herring – Appointed 18 April 2017

N Ngale (*Independent*) – Appointed 7 June 2017

RL Herring was appointed as director and chief executive officer on 18 August 2017 to replace SB Herring who stepped down as CEO but who remains on the board as a non-executive director.

Directors' interest in shares

As at 30 June 2018, the directors held the following direct and indirect interests in shares in the company:

| | Beneficial holdings | | Non-beneficial holdings | | Total | % |
|------------|---------------------|-------------|-------------------------|----------|-------------|------|
| | Direct | Indirect | Direct | Indirect | | |
| RL Herring | 850 000 | 11 377 339 | – | – | 12 227 339 | 4,8 |
| JA Finn | 850 000 | – | – | – | 850 000 | 0,3 |
| SD Friend | – | 5 000 | – | – | 5 000 | – |
| SJ Blieden | – | – | – | – | – | – |
| T Cohen | – | – | – | – | – | – |
| SB Herring | – | 222 653 881 | – | – | 222 653 881 | 86,9 |
| N Ngale | – | – | – | – | – | – |
| | 1 700 000 | 234 036 220 | – | – | 235 736 220 | 92,0 |

There has been no change to the directors' interest in shares between the end of the reporting date and the date of approval of the annual financial statements.

Directors' interests in contracts

None of the directors had any direct or indirect material beneficial interest in contracts with the company or its subsidiaries during the reporting period.

Events after the reporting period

The directors are not aware of any material event which occurred after the reporting date and up to the date of this integrated report.

Going concern

The directors believe that the group has adequate cash resources to continue for the foreseeable future and accordingly, the consolidated financial statements have been prepared on a going concern basis. The directors have satisfied themselves that the group is in a sound financial position and that it has access to sufficient funding facilities to meet its foreseeable cash requirements.

Auditor

Subject to the approval of the shareholders at the upcoming AGM, Grant Thornton will continue in office in accordance with section 90 of the

Companies Act. P Badrick will be the partner responsible for the audit.

Company secretary

CIS Company Secretaries Proprietary Limited, represented by Gillian Mary Prestwich BA FCIS, has been appointed as the company secretary.

As required by the JSE Listings Requirements, the board has satisfied itself that the company secretary, together with Ms Prestwich, have appropriate qualifications, expertise and experience. In addition, the board has satisfied itself that there is an arm's-length relationship with the company secretary, due to the fact that the company secretary is not a director of the company.

The address of the secretary is set out below.

Postal address PO Box 61051
Marshalltown 2107

Business address Rosebank Towers
15 Biermann Towers
Rosebank, Johannesburg 2196

Preparer

The financial statements were compiled by Jany's Finn CA(SA).



Independent auditor's report

To the shareholders of Heriot REIT Limited

Report on the audit of the financial statements

Opinion

We have audited the consolidated and separate financial statements of Heriot REIT Limited and its subsidiaries (the "group" and "company") set out on pages 40 to 72, which comprise the consolidated and separate statements of financial position as at 30 June 2018, and the consolidated and separate statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the 13 months then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Heriot REIT Limited as at 30 June 2018, and its consolidated and separate financial performance and consolidated and separate cash flows for the 13 months then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report. We are independent of the group and company in accordance with the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors ("IRBA Code") and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The following key audit matter relates to the consolidated financial statements. No key audit matters were noted for the separate financial statements.

| Key audit matter | How the matter was addressed |
|---|--|
| <p>Valuation of investment property Valuation of investment property (R4,452 billion).</p> <p>Significant judgement is required by the directors in determining the fair value of investment property.</p> <p>As disclosed in note 2 to the financial statements, the portfolio is valued annually by independent valuers.</p> <p>Note 2 also sets out the most significant inputs into the valuations, all of which are unobservable. The valuations were based on discounted cash flow models.</p> <p>The valuation of investment property is considered a key audit matter due to the significance of the balance, the significant judgements associated with determining fair value and the sensitivity of the valuations to changes in assumptions.</p> | <p>We performed the following procedures amongst others:</p> <ul style="list-style-type: none"> Assessed the competency and objectivity of the independent valuers. This included verifying professional qualifications and registrations and making an assessment of the independence and appropriateness of the valuers used; Compared the significant assumptions and judgements against historical inputs and market data where available; and Investigated unexpected movements; <ul style="list-style-type: none"> For a sample of properties, and with the assistance of our valuation experts, we scrutinised the calculations for accuracy, the inputs for reasonableness and recalculated the valuations; and Reviewed the adequacy of the disclosures in the financial statements, including disclosure on significant inputs and sensitivity analyses. |

Other information

The directors are responsible for the other information. The other information comprises the directors' report, the audit committee's report and the company secretary's certificate as required by the Companies Act of South Africa, which we obtained prior to the date of this report, and the integrated annual report, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon. Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained

in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and/or the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and company's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and/or the company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

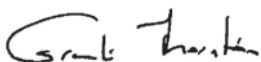
We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most

significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Grant Thornton has been the auditor of Heriot REIT Limited for one year.



Grant Thornton

Registered auditors

Practice Number: 903485E

Paul Badrick

Partner

Registered Auditor

Chartered accountant (SA)

31 August 2018

@Grant Thornton

Wanderers Office Park

52 Corlett Drive

Illovo, 2196



Statement of financial position

as at 30 June 2018

| | | GROUP | COMPANY |
|-------------------------------------|-------|------------------|------------------|
| | Notes | R'000 | R'000 |
| Assets | | | |
| Non-current assets | | 4 522 554 | 2 570 261 |
| Investment property | | 4 451 963 | – |
| Fair value of property portfolio | 2 | 4 364 185 | – |
| Straight-line rental income accrual | 3 | (19 085) | – |
| Properties under development | 4 | 106 863 | – |
| Property, plant and equipment | 5 | 25 373 | – |
| Investment in subsidiaries | 6 | – | 2 535 473 |
| Investment in associate | 7 | 10 430 | – |
| Financial assets | 8 | 34 788 | 34 788 |
| Current assets | | 217 924 | 539 510 |
| Trade and other receivables | 9 | 24 165 | 195 316 |
| Financial assets | 8 | 77 760 | 344 125 |
| Taxation | | 2 918 | – |
| Cash and cash equivalents | 10 | 113 081 | 70 |
| Total assets | | 4 740 478 | 3 109 771 |
| Equity and liabilities | | | |
| Equity | | 3 005 865 | 2 669 494 |
| Shareholders' interest | | 2 959 465 | 2 669 494 |
| Stated capital | 11 | 2 548 624 | 2 557 648 |
| Reserves | | 410 841 | 111 846 |
| Non-controlling interests | 12 | 46 400 | – |
| Liabilities | | 1 270 844 | – |
| Interest-bearing borrowings | 13 | 1 211 036 | – |
| Deferred taxation | 14 | 59 808 | – |
| Current liabilities | | 463 769 | 440 278 |
| Interest-bearing borrowings | 13 | 403 886 | 399 746 |
| Other financial liabilities | 15 | – | 38 301 |
| Derivative financial instrument | 16 | 812 | – |
| Trade and other payables | 17 | 59 071 | 2 231 |
| Total equity and liabilities | | 4 740 478 | 3 109 771 |

Statement of comprehensive income

for the 13 months ended 30 June 2018

| | | GROUP | COMPANY |
|--|-------|----------------|----------------|
| | Notes | R'000 | R'000 |
| Revenue | | 444 828 | 206 169 |
| Contractual rental income | | 463 913 | – |
| Straight-line rental income accrual | | (19 085) | – |
| Dividends received | | – | 206 169 |
| Operating costs | | (99 376) | – |
| Net property income | | 345 452 | 206 169 |
| Equity-accounted profits (net of taxation) | 7 | 781 | – |
| Other income | | 11 074 | – |
| Administration costs | | (34 481) | (1 939) |
| Profit from operations | 18 | 322 826 | 204 230 |
| Net finance charges | 20 | (135 371) | (2 450) |
| Profit before fair value adjustments | | 187 455 | 201 780 |
| Fair value adjustments | 21 | 328 583 | – |
| Profit before taxation | | 516 038 | 201 780 |
| Taxation | 22 | (6 098) | – |
| Total comprehensive income for the year | | 509 940 | 201 780 |
| Attributable to: | | | |
| Heriot shareholders | | 498 445 | |
| Non-controlling shareholders | | 11 495 | |
| | | 509 940 | |
| Basic earnings per share (cents) | 23 | 195,17 | |



Statement of changes in equity

for the 13 months ended 30 June 2018

| | GROUP | | | |
|--|------------------------|-------------------|---------------------------------------|------------------|
| | Share capital R'000 | Reserves R'000 | Non-controlling interests R'000 | Total R'000 |
| Issue of shares on incorporation | 29 | | | 29 |
| Issue of shares on acquisition of businesses | 2 514 342 | | 87 112 | 2 601 454 |
| Issue of shares to participants of employee share incentive scheme | 42 000 | | | 42 000 |
| Acquisition of minority interests | 6 586 | 2 330 | (52 207) | (43 291) |
| Treasury shares | (9 000) | | | (9 000) |
| Share issue expenses | (5 333) | | | (5 333) |
| Total comprehensive income for the period | | 498 445 | 11 495 | 509 940 |
| Dividends paid | | (89 934) | | (89 934) |
| Balance at 30 June 2018 | 2 548 624 | 410 841 | 46 400 | 3 005 865 |

Note

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| | COMPANY | | |
|--|------------------------|-------------------|------------------|
| | Share capital R'000 | Reserves R'000 | Total R'000 |
| Issue of shares on incorporation | 29 | | 29 |
| Issue of shares on acquisition of subsidiaries | 2 514 342 | | 2 514 342 |
| Issue of shares to participants of employee share incentive scheme | 42 000 | | 42 000 |
| Acquisition of minority interests | 6 586 | | 6 586 |
| Share issue expenses | (5 309) | | (5 309) |
| Total comprehensive income for the period | | 201 780 | 201 780 |
| Dividends paid | | (89 934) | (89 934) |
| Balance at 30 June 2018 | 2 557 648 | 111 846 | 2 669 494 |

Note

11

Statement of cash flows

for the 13 months ended 30 June 2018

| | | GROUP | COMPANY |
|---|---------|------------------|------------------|
| | Notes | R'000 | R'000 |
| Net cash utilised in operating activities | | 258 031 | 5 437 |
| Cash generated from operations | 24.2 | 394 998 | 7 887 |
| Finance charges | | (135 371) | (2 450) |
| Taxation paid | 24.3 | (1 596) | – |
| Net cash utilised in investing activities | | (277 555) | (309 899) |
| Acquisition and development of investment property | 2 and 4 | (343 727) | – |
| Investment in subsidiaries | | – | (43 291) |
| Proceeds from disposal of investment property | 2 | 22 890 | – |
| Cash on acquisition of businesses | 25 | 13 692 | – |
| Acquisition of property, plant and equipment | 5 | (97) | – |
| Loans advanced to subsidiaries | | – | (315 379) |
| Loan received from related party | | – | 47 301 |
| Loan to related party repaid | | 26 717 | – |
| Share scheme debt repaid | | 1 470 | 1 470 |
| Dividends received from associates | | 1 500 | – |
| Net cash generated from financing activities | | 132 605 | 304 532 |
| Shares issued | 11 | 29 | 29 |
| Share issue expenses | 11 | (5 333) | (5 309) |
| Acquisition of non-controlling interest | | (43 291) | – |
| Dividends paid | | (89 934) | (89 934) |
| Interest-bearing borrowings repaid | 24.4 | (202 074) | – |
| Interest-bearing borrowings raised | 24.4 | 473 208 | 399 746 |
| Net movement in cash and cash equivalents | | 113 081 | 70 |
| Cash and cash equivalents at the beginning of the period | | – | – |
| Cash and cash equivalents at the end of the period | | 113 081 | 70 |



Notes to the annual financial statements

for the 13 months ended 30 June 2018

Heriot is a corporate REIT incorporated and registered in South Africa.

1. Accounting policies

1.1 Basis of preparation

The company financial statements and group financial statements are prepared on the historical cost basis except for investment properties and certain financial instruments which are measured at fair value. The financial statements are prepared on the going concern basis. They are presented in rand, which is the group and company's functional currency, and all values are rounded to the nearest thousand (R'000), except where otherwise indicated.

1.2 Statement of compliance

The company financial statements and group financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the requirements of the South African Companies Act of 2008 (the "Companies Act") and the Listings Requirements of the JSE Limited.

1.3 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making its judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or the period of the revision and future periods if the revision affects both current and future periods.

1.4 Basis of consolidation

Subsidiaries

The consolidated annual financial statements incorporate the annual financial statements of the group and entities controlled by the company and its subsidiaries.

The results of subsidiaries are included from the date control was acquired up to the date control ceased. Cost comprises the fair value of any assets transferred, liabilities or obligations assumed and equity instruments issued and excludes transaction costs.

Investments in subsidiaries of the group are reflected at cost less accumulated impairment losses.

The accounting policies of the subsidiaries are consistent with those of the group.

Associates

An associate is an entity over which the company can exercise significant influence, through participation in the financial and operating policy decisions of the investee, but where it does not have control or joint control over those policies.

The profits and losses, assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting.

Under the equity method, the investment is initially recorded at cost and thereafter the carrying value is adjusted to recognise the investor's share of the post-acquisition profits or losses of the investee after the date of acquisition, distributions received and any adjustments that are required. The profits or losses are recognised in the statement of profit or loss and other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate.

Unrealised gains on transactions between the group and associates are eliminated to the extent of the group's interest in the associates. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

1.5 Business combination

The group applies the acquisition method in accounting for business combinations. The consideration transferred by the group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

Assets acquired and liabilities assumed are generally measured at their fair values at the acquisition date.

1.6 Investment property

Investment property

Investment property is property held to earn rental income for capital appreciation.

The cost of investment property comprises the purchase price and directly attributable expenditure. Subsequent expenditure relating to investment property is capitalised when it is probable that there will be future economic benefits from the use of the asset. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

After initial recognition, investment property is measured at fair value. Fair values are determined annually by external independent registered valuers on the open market value basis. The valuers use either the discounted cash flow method or the capitalisation of net income method or a combination of both methods to determine fair value.

Gains or losses arising from changes in the fair values of investment property are included in profit or loss for the year in which they arise. The unrealised gain or loss is transferred to or from non-distributable reserves.

Immediately prior to disposal of investment property, the investment property is revalued to the net sales proceeds and such revaluation is recognised in profit or loss in the period during which it occurs.

When the group begins to redevelop an existing investment property, consideration is given to whether or not the property needs to be reclassified as investment property under development or should remain as investment property, which is measured based at the fair value model.

Tenant installation and lease commission costs are capitalised and amortised over the period of the lease. The carrying values of lease commissions and tenant installations are included with investment properties.

Investment property under development

Investment property under development comprises the cost of the land and development and is stated at cost as the fair value of the developments cannot be reliably measured. On completion, investment property under development is transferred to investment property, where it is measured at fair value.

All costs directly associated with the purchase and construction of a property, and all subsequent capital expenditure for the development qualifying as acquisition costs, are capitalised.

Borrowing costs are capitalised to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalisation of borrowing costs may continue until the asset is substantially ready for its intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised. The capitalisation rate is arrived at by reference to the actual rate payable on borrowings for development purposes or, with regard to that part of development cost financed out of general groups, the weighted average cost of borrowings.



Notes to the annual financial statements continued

for the 13 months ended 30 June 2018

1.7 Property, plant and equipment

Properties that are occupied by the company for internal purposes are recognised in terms of the accounting policy for property, plant and equipment.

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment, if any.

Depreciation is calculated on the straight-line method, to write off the cost to their residual values over their estimated useful lives. The depreciation rate applicable is as follows:

| | |
|-----------------------------------|-----------------|
| Land | Not depreciated |
| Buildings | 50 years |
| Computer equipment | 3 years |
| Furniture, fittings and equipment | 10 years |
| Motor vehicles | 5 years |

The useful lives and residual values of property, plant and equipment are assessed annually.

1.8 Financial instruments

The group's financial instruments consist mainly of loans receivable and payable, trade and other receivables, trade and other payables, cash and borrowings.

Financial instruments are initially measured at fair value plus, in the case of financial instruments not measured at fair value through profit and loss, transaction costs.

Subsequent to initial recognition these instruments are measured as set out below:

| | |
|---|--|
| Cash and equivalents | Carried at amortised cost |
| Trade and other receivables | Stated at amortised cost using the effective interest rate method less accumulated impairment losses |
| Trade and other payables | Stated at amortised cost using the effective interest rate method |
| Related party loans receivable and loans to participants of the employee share scheme | Stated at amortised cost using the effective interest rate method less accumulated impairment losses |
| Related party loans payable | Stated at amortised cost using the effective interest rate method |
| Financial liabilities | Non-derivative financial liabilities not at fair value through profit and loss are recognised at amortised cost using the effective interest rate method |
| Derivative financial instruments | Derivative financial instruments are recognised initially and subsequently stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. Directly attributable transaction costs are recognised in profit or loss when incurred |

For all financial instruments carried at amortised cost, where the financial effect of the time value of money is not considered to be material, discounting is not applied as the fair values of these instruments approximate their carrying values.

Derecognition

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Offset

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when the company has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.9 Revenue

Revenue comprises gross rental revenue including all recoveries from tenants, excluding VAT. Rental revenue from investment property is recognised in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income over the lease period. Contingent rents (turnover rentals) are included in revenue when the amount can be reliably measured.

Dividend income is recognised when the right to receive payment is established.

1.10 Property operating expenses

Service costs for service contracts entered into and property operating expenses are expensed as incurred.

1.11 Finance costs

Finance costs comprise interest payable on borrowings calculated using the effective interest rate method.

1.12 Finance income

Finance income comprises interest received and is recognised as it accrues, taking into account the effective yield on the asset.

1.13 Income tax

As the group is a REIT, no provision has been made for current tax in respect of South African subsidiaries as the group's distributable income is paid to shareholders. No deferred tax has been provided on movements in the fair value of investment property as no capital gains tax is payable on disposal of properties due to the REIT legislation. Deferred tax has been provided for capital allowances claimed in respect of investment property acquired in terms of the business combination which allowances will be recouped on the disposal of such assets.

1.14 Segmental reporting

A segment is a distinguishable component of the group that is engaged either in providing services (business segment), or in providing services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. The group's primary segment is based on business segments.

There are no secondary segments. The business segments are determined based on the group's management and internal reporting structure which will be determined by the group's executive committee.

On a primary basis, the group operates in the following segments:

- Retail;
- Industrial;
- Offices; and
- Specialised.

The group will from time to time invest in or divest from certain primary segments, in which case segmental reporting will be adjusted to reflect only the relevant operating segments.

Segment results include revenue and expenses directly attributable to a segment and the relevant portion of group revenue and expenses that can be allocated on a reasonable basis to a segment. Segmental assets comprise those assets that are directly attributable to the segment or can be allocated to the segment on a reasonable basis.



Notes to the annual financial statements continued

for the 13 months ended 30 June 2018

1.15 Impairment

Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit characteristics.

All impairment losses are recognised in profit or loss.

1.16 Key estimates and assumptions

Estimates and assumptions, an integral part of financial reporting, have an impact on the amounts reported for the group's assets, liabilities, income and expenses. Judgement in these areas is based on historical experience and reasonable expectations relating to future events. Actual results may differ from these estimates. Information on the key estimations and uncertainties that have the most significant effect on amounts recognised are set out in the following notes to the financial statements:

- Accounting policies – notes 1.5, 1.6, 1.7 and 1.9;
- Investment property valuation – note 2;
- Impairment of receivables – note 9; and
- Business combination – note 25.

Further matters that require key judgement in the preparation of these annual financial statements are:

Payment for the acquisition of investment properties

Pursuant to the listing of Heriot REIT on the AltX of the JSE, the company acquired the businesses of several entities by way of exchange agreements in terms of s42 of the Income Tax Act. The acquisitions were treated as business combinations in terms of IFRS 3 as in the opinion of the directors, there were adequate processes identified with these acquisitions to warrant classification as businesses.

Deferred taxation

As the group is a REIT, no provision for current tax has been provided as the group's distributable income is paid to shareholders. No deferred tax has been provided on movements in the fair value of investment property as no capital gains tax is payable on disposal of properties in terms of REIT legislation. Deferred tax has been provided for capital allowances claimed in respect of investment property acquired in terms of the business combination which allowances will be recouped on the disposal of such assets.

1.17 Standards and interpretations applicable to the company not yet effective

| Standard | Details of amendment | Annual periods beginning on or after |
|--|---|--------------------------------------|
| IFRS 9 Financial statements | A final version of IFRS 9 has been issued which replaces IAS 39 Financial instruments: Recognition and measurement. | 1 January 2018 |
| IFRS 15 Revenue from contracts with customers | This standard specifies how and when entities recognise revenue and requires those entities to provide users of financial statements with more informative and relevant disclosures. This is achieved through a five step methodology that is required to be applied to all contracts with customers. | 1 January 2018 |

| Standard | Details of amendment | Annual periods beginning on or after |
|-------------------|---|--------------------------------------|
| IFRS 16 Leases | This standard specifies how an entity recognises, measures, presents and discloses leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. | 1 January 2019 |
| IAS 40 | Transfers of investment property: Clarification of the requirements on transfers to or from investment property. | 1 January 2018 |

An impact assessment has been performed to understand and evaluate the potential impact of the adoption of IFRS 9, IFRS 15 and IFRS 16 on the group and company financial statements, the results of which are as follows:

IFRS 9

The main areas for consideration in relation to recognition and measurement of financial instruments for the group and company are in relation to the classification of financial instruments. This may result in changes in classification between amortised cost and fair value through profit and loss. In addition, the impairment model has been changed to an expected credit losses model which could increase the allowance for doubtful debt balance, as the forward-looking component may introduce additional losses. The group does not apply hedge accounting and therefore the change to hedge accounting under IFRS 9 will have no impact on the group and company financial statements.

IFRS 16

The standard represents no significant changes for lessors. However, the standard requires lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset is of low or insignificant value. As the group is predominantly a lessor, there are no changes anticipated in the accounting for the majority of our leases. In the few instances where we are lessees, we have assessed the impact and noted that these are immaterial.

IFRS 15

Rental income is recognised over the contractual term of the lease and therefore falls within the scope of IAS17/IFRS16. Although tenant recoveries are provided for in terms of the lease, the frequency of these recoveries as well as the value of the recoveries vary from month to month as they are based on actual expenses incurred by the lessor. Therefore, tenant recoveries fall within the scope of IAS 18 and will be accounted for under IFRS 15 going forward.



Notes to the annual financial statements continued

for the 13 months ended 30 June 2018

| | GROUP | COMPANY |
|--|-----------|---------|
| | R'000 | R'000 |
| 2. Investment property | | |
| Net carrying value | | |
| Cost | 4 037 648 | – |
| Fair value surplus | 326 537 | – |
| | 4 364 185 | – |
| Movement for the period | | |
| Investment properties at the beginning of the period | – | – |
| On acquisition of subsidiaries (note 25) | 3 789 584 | – |
| Acquisition and development of investment property | 270 414 | – |
| Disposals | (22 800) | – |
| Change in fair value | 326 590 | – |
| Investment property | 345 675 | – |
| Straight-line rental income adjustment | (19 085) | – |
| Tenant installations | 397 | – |
| Capitalised | 450 | – |
| Amortised | (53) | – |
| Balance at the end of the period | 4 364 185 | – |
| Reconciliation to independent valuation | | |
| Investment property at valuation | 4 364 185 | – |
| Straight-line rental income accrual | (19 085) | – |
| | 4 345 100 | – |

All properties are externally valued annually.

The properties were valued by Quadrant Properties, a registered valuer in terms of section 19 of the Property Valuers Professional Act 47 of 2000, using the discounted cash flow methodology. This method is based on an open market basis with consideration given to the future earnings potential and applying appropriate capitalisation rates to the properties. The capitalisation rate is dependent on a number of factors such as location, the condition of the property, lease covenants and current market conditions and the resulting valuation is tested for reasonableness by benchmarking against recent comparable sales activity and available market surveys.

The average capitalisation rates applied per sector were as follows:

| | % |
|------------|------|
| Retail | 8,02 |
| Industrial | 8,63 |
| Office | 8,70 |

First mortgage bonds have been registered over investment property with a value of R3,800 billion as security for interest-bearing borrowings of R1,588 billion.

| | GROUP | COMPANY |
|---|-----------------|----------|
| | R'000 | R'000 |
| 3. Straight-line rental income accrual | | |
| Balance at the beginning of the period | – | – |
| Arising during the period | (19 085) | – |
| Balance at the end of the period | (19 085) | – |
| 4. Properties under development | | |
| Balance at the beginning of the period | – | – |
| On acquisition of subsidiaries | 34 000 | – |
| Development costs | 69 598 | – |
| Capitalised borrowing costs | 3 265 | – |
| | 106 863 | – |
| 5. Property, plant and equipment | | |
| Property | 24 185 | – |
| Cost | 24 721 | – |
| Accumulated depreciation | (536) | – |
| Computer equipment | 58 | – |
| Cost | 105 | – |
| Accumulated depreciation | (47) | – |
| Motor vehicles | 632 | – |
| Cost | 935 | – |
| Accumulated depreciation | (303) | – |
| Furniture, fittings and equipment | 498 | – |
| Cost | 576 | – |
| Accumulated depreciation | (78) | – |
| | 25 373 | – |

Property comprises owner-occupied property situate at unit 32 of Sectional Scheme 1 and 3 Melrose Boulevard.



Notes to the annual financial statements continued

for the 13 months ended 30 June 2018

| | GROUP | COMPANY |
|--|--------|---------|
| | R'000 | R'000 |
| 5. Property, plant and equipment <small>continued</small> | | |
| Movement for the period | | |
| Balance at the beginning of the period | – | – |
| On acquisition from subsidiaries | 26 240 | – |
| Owner-occupied property | 24 721 | – |
| Computers | 55 | – |
| Furniture, fittings and equipment | 529 | – |
| Motor vehicles | 935 | – |
| Additions | 97 | – |
| Computers | 50 | – |
| Furniture, fittings and equipment | 47 | – |
| Depreciation for the period | (964) | – |
| Owner-occupied property | (536) | – |
| Computers | (47) | – |
| Furniture, fittings and equipment | (78) | – |
| Motor vehicles | (303) | – |
| | 25 373 | – |

| | COMPANY | |
|---|-----------|-----------------------|
| | Holding % | Carrying amount R'000 |
| 6. Investment in subsidiaries | | |
| Heriot Properties Proprietary Limited | 100 | 1 515 451 |
| Terrace Drive Properties 34 Proprietary Limited | 100 | 200 736 |
| Heriot Properties International Proprietary Limited | 90 | 158 135 |
| Phokeng Mall Proprietary Limited | 100 | 133 134 |
| Fin Properties 107 Proprietary Limited | 100 | 122 224 |
| Heriot Properties West Proprietary Limited | 100 | 102 925 |
| Beneficial Interest in Heriot Trust Number 1 | 100 | 99 659 |
| Beneficial Interest in Heriot Trust Number 3 | 100 | 71 625 |
| Chasie Investments Proprietary Limited | 100 | 49 085 |
| Bait Away Trading Proprietary Limited | 100 | 46 787 |
| Moditouch Proprietary Limited | 50 | 17 904 |
| Tiger Stripes Investments 31 Proprietary Limited | 100 | 12 488 |
| Croszie Proprietary Limited | 100 | 5 320 |
| | | 2 535 473 |
| Movement for the period | | |
| Balance at the beginning of the period | | – |
| Acquisition of subsidiaries | | 2 485 596 |
| Cost of subsidiaries acquired (note 25) | | 2 514 342 |
| Reflected as loan to subsidiary (note 8) | | (28 746) |
| Acquisition of 33,3% minority interest in Heriot Trust Number 1 | | 33 291 |
| Acquisition of 25% minority interest in Heriot Trust Number 3 | | 16 586 |
| | | 2 535 473 |

The company acquired the investments in the subsidiaries on 5 June 2017 pursuant to its listing on the AltX of the JSE.



Notes to the annual financial statements continued

for the 13 months ended 30 June 2018

| | GROUP | COMPANY |
|--|----------|-----------|
| | R'000 | R'000 |
| 7. Investment in associate | | |
| 49,9% interest in Fixtrade 605 Proprietary Limited | 10 430 | – |
| The associate owns a portfolio of townhouses based in Newcastle, KwaZulu-Natal. This property is held for rental income and capital appreciation. Heriot's interest in the associate is not material to the group. | | |
| The summarised aggregated financial information of the group's share in the associate is as follows: | | |
| Total comprehensive income | 781 | – |
| Aggregate carrying amount of the group's interest in the associate | 10 430 | – |
| Movement for the period | | |
| Balance at the beginning of the period | – | – |
| On acquisition of subsidiaries | 11 149 | – |
| Equity-accounted results per the statement of comprehensive income | | |
| Share of distributable income | 781 | – |
| Dividends received | (1 500) | – |
| Balance at the end of the period | 10 430 | – |
| 8. Financial assets | | |
| Loans to participants of the employee share scheme (note 8.1) | 34 788 | 34 788 |
| Loan to related party (note 8.2) | 77 760 | – |
| Loan to subsidiaries (note 8.3) | – | 344 125 |
| | 112 548 | 378 913 |
| Less: Short-term portion | (77 760) | (344 125) |
| | 34 788 | 34 788 |

| | GROUP | COMPANY |
|---|---------------|----------------|
| | R'000 | R'000 |
| 8. Financial assets continued | | |
| Movement for the year | | |
| <i>Loans to participants of the employee share scheme</i> | | |
| Balance at the beginning of the period | – | – |
| Loans advanced during the period | 42 000 | 42 000 |
| Loans repaid during the period | (10 470) | (10 470) |
| Interest received | 3 258 | 3 258 |
| Balance at the end of the period | 34 788 | 34 788 |
| <i>Loan to related party</i> | | |
| Balance at the beginning of the period | | |
| Acquired on acquisition of businesses | 104 477 | – |
| Repaid during the period | (26 717) | – |
| Balance at the end of the period | 77 760 | – |
| <i>Loan to subsidiaries</i> | | |
| Balance at the beginning of the period | – | – |
| Acquired on acquisition of subsidiaries | – | 28 746 |
| Advanced during the period | – | 315 379 |
| Balance at the end of the period | – | 344 125 |

8.1 Loans due from participants of the employee share scheme:

- The shares were acquired at the listing price of R10 per share.
- The loans bear interest at the group's average cost of borrowings, currently 9,1%.
- If the interest payable on the loans exceeds the dividends in respect of the period for which such dividends are declared, then such excess shall be added to and shall be deemed to form part of the loans.
- If the dividends payable on the plan shares in respect of the period for which such dividends are declared exceed the interest payable for such period, then such excess shall be made available to the participant unless the participant has indicated that such excess is to be applied in reducing the loan.
- The loans are secured by a pledge of shares to the company. The company has recourse to a scheme participant to the extent that the value of the amount due by the participant falls below the loan owed by the participant on the date repayment of the loan falls due.
- The company is entitled to demand payment of the debt outstanding in respect of any plan shares at any time after the expiration of 10 years from the date of the agreement.

In terms of the recourse available to the company, the employees to whom the shares have been issued remain liable for the relevant outstanding scheme debt.

8.2 The loan to the related party is unsecured, bears interest at the group's average cost of borrowings, currently 9,1% per annum, and is repayable on demand.

8.3 Other than the loan to Crosize Proprietary Limited ("Crosize"), the loans to the subsidiaries bear interest at prime less 1,25% and are repayable on demand. The loan to Crosize is interest free and repayable on demand.



Notes to the annual financial statements continued

for the 13 months ended 30 June 2018

| | GROUP | COMPANY |
|--|----------------|----------------|
| | R'000 | R'000 |
| 9. Trade and other receivables | | |
| Trade receivables | 1 490 | – |
| Impairments | (600) | – |
| | 890 | – |
| Municipal deposits | 7 074 | – |
| Prepayments | 3 735 | 15 |
| Value added taxation | 3 395 | 1 |
| Management fees* | 6 960 | – |
| Other receivables | 2 111 | – |
| Dividends from subsidiaries | – | 195 299 |
| | 24 165 | 195 316 |
| The ageing of amounts due but not impaired is as follows: | | |
| Less than 30 days | 480 | – |
| 30 days past due | 168 | – |
| 60 days past due | 33 | – |
| 90 days past due | 26 | – |
| More than 90 days | 783 | – |
| | 1 490 | |
| * Comprises fees due for the management of a portfolio of properties in Zambia. The fees have been recovered subsequent to the end of the reporting date. | | |
| 10. Cash and cash equivalents | | |
| For purposes of the cash flow statement, cash and cash equivalents comprise: | | |
| Bank balances | 113 081 | 70 |

Cash is invested with First National Bank Limited, a division of FirstRand Bank Limited.

| | GROUP | COMPANY |
|---|------------------|------------------|
| | R'000 | R'000 |
| 11. Stated capital | | |
| Authorised | | |
| 2 000 000 000 ordinary shares of no par value | | |
| Issued | | |
| 256 295 858 ordinary shares of no par value | 2 557 624 | 2 557 648 |
| Less: 900 000 treasury shares | (9 000) | – |
| | 2 548 624 | 2 557 648 |
| Reconciliation of issued stated capital | | |
| In issue at the beginning of the period | – | – |
| Issued for acquisition of businesses pursuant to listing | 2 514 342 | 2 514 342 |
| Issue of shares on incorporation | 29 | 29 |
| Issued to participants of the employee share incentive scheme | 42 000 | 42 000 |
| Acquisition of minority interests | 6 586 | 6 586 |
| Shares acquired by subsidiary company | (9 000) | – |
| Share issue expenses | (5 333) | (5 309) |
| | 2 548 624 | 2 557 648 |

| | GROUP | COMPANY |
|--|------------------|------------------|
| | Number of shares | Number of shares |
| Reconciliation of issued number of shares | | |
| In issue at the beginning of the period | – | – |
| Issued during the period | 256 296 | 256 296 |
| Shares acquired by subsidiary company | (900) | – |
| | 255 396 | 256 296 |



Notes to the annual financial statements continued

for the 13 months ended 30 June 2018

| | | GROUP |
|---|-----|----------|
| | | R'000 |
| 12. Non-controlling interests ("NCI") | | |
| Effective voting rights of NCI | | |
| Moditouch Proprietary Limited | 50% | 23 893 |
| Heriot Properties International Proprietary Limited | 10% | 22 507 |
| | | 46 400 |
| Movement for the period | | |
| On acquisition of businesses | | 87 112 |
| Minority interests acquired | | (52 207) |
| 33,3% interest in Heriot Trust Number 1 | | (33 291) |
| 25% interest in Heriot Trust Number 3 | | (18 916) |
| Share of profits for the period | | 11 495 |
| | | 46 400 |

Moditouch Proprietary Limited

With effect from 5 June 2018, the group acquired a 50% equity interest in Moditouch Proprietary Limited ("Moditouch"). Moditouch is controlled by Heriot by virtue of Heriot's right to hold the majority of director positions on the board.

Heriot Properties International Proprietary Limited

With effect from 5 June 2018, the group acquired a 90% equity interest in Heriot Properties International Proprietary Limited ("HPI"). Heriot controls HPI by virtue of the voting rights held.

| | GROUP | COMPANY |
|---|-----------|-----------|
| | R'000 | R'000 |
| 13. Interest-bearing liabilities | | |
| Nedbank Limited (note 13.1) | 737 360 | – |
| Nedbank Limited (note 13.2) | 399 746 | 399 746 |
| Nedbank Limited (note 13.3) | 70 062 | – |
| Nedbank Limited (note 13.4) | 59 999 | – |
| Rand Merchant Bank Limited (note 13.5) | 132 185 | – |
| Sanlam Capital Markets Proprietary Limited (note 13.6) | 215 570 | – |
| | 1 614 922 | 399 746 |
| Less: Short-term portion of interest-bearing borrowings | (403 886) | (399 746) |
| | 1 211 036 | – |

13. Interest-bearing liabilities continued

- 13.1** The interest only facility bears interest at 1,5% below the prime bank overdraft rate, is secured by first mortgage bonds over investment property valued at R1,620 billion and is repayable on 1 June 2020.
- 13.2** The interest only facility bears interest at 1,25% below the prime bank overdraft rate, is secured by first mortgage bonds over investment property valued at R721,2 million and is repayable on 30 June 2018. Post year-end, the loan was refinanced by Standard Bank Limited at a rate of JIBAR plus 1,73% and is repayable on 14 January 2022.
- 13.3** The loan bears interest at a fixed rate of 10,29%, is repayable in monthly instalments of R806,122 with a final repayment on 7 February 2024 and is secured by a first mortgage bond over investment property valued at R116,5 million.
- 13.4** The interest only facility bears interest at 1,0% below the prime bank overdraft rate and is repayable on 13 December 2019. The facility is secured by a first mortgage bond over development property valued at R106,8 million.
- 13.5** The interest only facility bears interest at a fixed rate of 9,34%, is secured by a first mortgage bond over investment property valued at R657,0 million and is repayable on 31 October 2020.
- 13.6** The interest only facility bears interest at a fixed rate of 8,95%, is secured by first covering mortgage bonds over investment property valued at R288,7 million and is repayable on 1 July 2020.
- 13.7** At the reporting date, the group had unutilised facilities of R82,6 million.

| | GROUP | COMPANY |
|--|----------|---------|
| | R'000 | R'000 |
| 14. Deferred taxation | | |
| Capital allowances | 76 034 | – |
| Prepayments | (16 226) | – |
| | 59 808 | – |
| Movement for the year | | |
| Balance at the beginning of the period | – | – |
| On acquisition of businesses (note 25) | 54 743 | – |
| Per statement of comprehensive income | 5 065 | – |
| | 59 808 | – |

With effect 24 July 2018, the company converted to a Real Estate Investment Trust ("REIT") resulting in capital gains taxation no longer being applicable on the sale of investment property in terms of section 25BB of the Income Tax Act. The deferred tax rate applied to investment property at the sale rate will therefore be 0%. Consequently, no deferred tax was raised on the fair value adjustments on investment property.



Notes to the annual financial statements continued

for the 13 months ended 30 June 2018

| | GROUP | COMPANY |
|--|---------|---------|
| | R'000 | R'000 |
| 15. Other financial liabilities | | |
| Loan from subsidiary | | |
| Heriot Properties Proprietary Limited | – | 38 301 |
| The loan is unsecured, interest free and is repayable on demand. | | |
| 16. Derivative financial instrument | | |
| Interest rate swap | 812 | – |
| Nominal value 300 000 000 | | |
| Maturity 10 September 2018 | | |
| Fixed interest rate (%) 9,62 | | |
| The derivative instrument was valued by Nedbank Limited by discounting the future cash flows using the JIBAR swap curve. | | |
| Movement for the period | | |
| Balance at the beginning of the period | – | – |
| On acquisition of businesses (note 25) | 2 806 | – |
| Movement for the period | (1 993) | – |
| | 812 | – |
| 17. Trade and other payables | | |
| Rent received in advance | 5 537 | – |
| Accrued interest | 10 282 | – |
| Accrued expenses | 22 014 | 2 231 |
| Value added taxation | 4 560 | – |
| Tenant deposits | 5 318 | – |
| Other payables | 11 360 | – |
| | 59 071 | 2 231 |

| | GROUP |
|--|--------|
| | R'000 |
| 18. Net operating profit | |
| Net operating profit includes the following items: | |
| Charges | |
| Audit fees | 851 |
| Current fee | 823 |
| Underprovision for previous year | 28 |
| Amortisation and depreciation | 1 017 |
| Management fees | 526 |
| Staff costs | 27 186 |
| 19. Directors' emoluments | |
| Fees paid to non-executive directors | |
| SD Friend (<i>Chairman</i>) | 264 |
| SJ Blieden | 200 |
| T Cohen | 200 |
| SB Herring | 150 |
| N Ngale | 200 |
| | 1 014 |
| Remuneration paid to executive directors* | |
| SB Herring (<i>Chief executive officer</i>)^ | 400 |
| Salary | 400 |
| Bonus | – |
| RL Herring (<i>Chief executive officer</i>)^ | 3 361 |
| Salary | 2 469 |
| Travel allowance | 165 |
| Bonus | 727 |
| JA Finn (<i>Chief financial officer</i>) | 3 946 |
| Salary | 3 279 |
| Bonus | 667 |
| | 7 707 |

^ SB Herring resigned as chief executive officer on 18 August 2018. RL Herring was appointed on the same date.

* No other remuneration, other than disclosed above, was paid to executive directors.



Notes to the annual financial statements continued

for the 13 months ended 30 June 2018

| | GROUP | COMPANY |
|---|-----------|---------|
| | R'000 | R'000 |
| 20. Net finance charges | | |
| Finance charges | (152 147) | (5 761) |
| Secured borrowings | (154 896) | (5 761) |
| Other | (516) | – |
| Capitalised | 3 265 | – |
| Interest received | 16 776 | 3 311 |
| Interest received – bank | 6 754 | 52 |
| Related party loan | 6 443 | – |
| Other | 3 579 | 3 259 |
| | (135 371) | (2 450) |
| 21. Changes in fair values | | |
| Unrealised gain on revaluation of investment property | 326 590 | – |
| Unrealised gain on revaluation of interest rate swap | 1 993 | – |
| | 328 583 | – |
| 22. Taxation | | |
| Normal taxation | 1 033 | – |
| Current | 1 000 | – |
| Underprovision in respect of prior year | 33 | – |
| Deferred | 5 065 | – |
| Current | 979 | – |
| Underprovision in respect of prior year | 4 086 | – |
| | 6 098 | – |

| | GROUP | COMPANY |
|--|----------|----------|
| | R'000 | R'000 |
| 22. Taxation continued | | |
| Reconciliation of taxation charge | | |
| Profit before taxation | 516 038 | 201 780 |
| Tax at the applicable rate 28% | 144 491 | 56 498 |
| Taxation effect of: | | |
| Qualifying distributions | (56 822) | (56 822) |
| Fair value adjustment of investment properties and derivatives | (92 004) | – |
| Straight-line rental income accrual | 5 344 | – |
| Equity-accounted profits (net of taxation) | (219) | – |
| Adjustments to prior year | 4 119 | – |
| Other | 209 | 324 |
| Deferred tax on capital allowance | 979 | – |
| | 6 098 | – |

| | GROUP |
|---|----------------|
| | R'000 |
| 23. Earnings and headline earnings | |
| Reconciliation of basic earnings to headline earnings | |
| Profit attributable to Heriot shareholders | 498 445 |
| Change in fair value of investment properties attributable to Heriot shareholders | (318 546) |
| Change in fair value of investment properties | (326 590) |
| Attributable to non-controlling shareholders | 8 044 |
| Headline earnings attributable to Heriot shareholders | 179 899 |
| Actual number of shares in issue* | 255 395 858 |
| Weighted average number of shares in issue | 252 363 996 |
| There are no dilutive instruments in issue. | |
| Basic earnings per share (cents) | 195,17 |
| Headline earnings per share (cents) | 70,44 |

* Excludes 900 000 treasury shares.



Notes to the annual financial statements continued

for the 13 months ended 30 June 2018

24. Notes to the cash flow statement

24.1 The following convention applies to figures other than adjustments:

Outflows of cash are represented by figures in brackets. Inflows of cash are represented by figures without brackets.

| | GROUP | COMPANY |
|---|----------------|--------------|
| | R'000 | R'000 |
| 24.2 Cash absorbed by operation | | |
| Profit before taxation | 516 039 | 201 780 |
| Adjusted for | | |
| Non-cash items | (312 611) | (3 258) |
| Changes in fair values | (328 584) | – |
| Profit on disposal of investment property | (90) | – |
| Straight-line rental income accrual | 19 085 | – |
| Equity-accounted profits (net of taxation) | (781) | – |
| Interest received on loans to participants of the employee share scheme | (3 258) | (3 258) |
| Depreciation | 1 017 | – |
| Net finance charges | 135 371 | 2 450 |
| Operating profit before working capital changes | 338 799 | 200 972 |
| Working capital changes | 56 199 | (193 085) |
| Trade and other receivables | 46 436 | (195 316) |
| Trade and other payables | 9 763 | 2 231 |
| Cash generated from operations | 394 998 | 7 887 |
| 24.3 Taxation paid | | |
| Taxation in advance at the beginning of the period | – | – |
| Arising on acquisition of subsidiaries (note 25) | 2 355 | – |
| Taxation for the year | (1 033) | – |
| Taxation in advance at the end of the period | (2 918) | – |
| Taxation paid during the period | (1 596) | – |

24. Notes to the cash flow statement continued

| | GROUP | | |
|---|----------------------------|-----------------------------|-------------|
| | Long-term borrowings R'000 | Short-term borrowings R'000 | Total R'000 |
| 24.4 Reconciliation of liabilities arising from financial activities | | | |
| Balance at the beginning of the period | – | – | – |
| On acquisition of businesses | 1 314 021 | 29 767 | 1 343 788 |
| Cash flows | | | |
| Repayment | (193 130) | (8 944) | (202 074) |
| Proceeds | 73 462 | 399 746 | 473 208 |
| Reclassification | 7 417 | (7 417) | – |
| | 1 201 770 | 413 152 | 1 614 922 |

| | COMPANY | | |
|---|----------------------------|-----------------------------|-------------|
| | Long-term borrowings R'000 | Short-term borrowings R'000 | Total R'000 |
| 24.4 Reconciliation of liabilities arising from financial activities | | | |
| Balance at the beginning of the period | – | – | – |
| Cash flows | | | |
| Repayment | – | – | – |
| Proceeds | – | 399 746 | 399 746 |
| | – | 399 746 | 399 746 |



Notes to the annual financial statements continued

for the 13 months ended 30 June 2018

25. Business combination

Pursuant to the listing of Heriot REIT on the AltX of the JSE, the company acquired the businesses of the following entities, by way of exchange agreements in terms of s42 of the Income Tax Act, with effect from 5 June 2017:

| | GROUP |
|---|---------------------------|
| | Interest acquired % |
| Heriot Properties Proprietary Limited | 100 |
| Heriot Properties International Proprietary Limited | 90 |
| Tembisa Mall Proprietary Limited | 100 |
| HP10 Investments Proprietary Limited | 100 |
| Phokeng Mall Proprietary Limited | 100 |
| Terrace Drive Properties 34 Proprietary Limited | 100 |
| Fin Properties 107 Proprietary Limited | 100 |
| Chasie Investments Proprietary Limited | 100 |
| Tiger Stripes Investments 31 Proprietary Limited | 100 |
| Heriot Properties (West) Proprietary Limited | 100 |
| Croszie Proprietary Limited | 100 |
| Moditouch Proprietary Limited | 50 |
| Heriot Trust No. 1 | 67 |
| Heriot Trust No. 3 | 75 |
| Bait Away Trading Proprietary Limited | 100 |

The businesses were acquired for R2,514 billion, settled by way of the issue of 251 434 million shares in Heriot REIT at R10 per share.

25. Business combination continued

Assets and liabilities arising from the acquisition are as follows:

| | GROUP |
|---|------------------|
| | R'000 |
| Assets | |
| Investment property | 3 789 584 |
| Property under development | 34 000 |
| Property, plant and equipment | 26 240 |
| Investment in associate | 11 149 |
| Loan to related party | 104 477 |
| Trade and other receivables | 70 601 |
| Taxation paid in advance | 2 355 |
| Cash and cash equivalents | 13 692 |
| Liabilities | |
| Interest-bearing borrowings | (1 343 788) |
| Derivative instrument | (2 806) |
| Deferred taxation | (54 743) |
| Trade and other payables | (49 308) |
| Fair value of net assets acquired | 2 601 453 |
| Non-controlling interest | (87 112) |
| Fair value of Heriot REIT's share of net assets acquired* | 2 514 341 |
| Cash and cash equivalents acquired – net cash inflow on acquisition | 13 692 |

* Settled by issue of 2 514 342 340 shares in Heriot REIT Limited.

The combined businesses generated revenues and net profit before taxation amounting to R463,9 million and R516,0 million respectively.

26. Commitments

Operating expense commitments

The company has entered into various service contracts for the cleaning and general maintenance of the property portfolio. The operating expense commitments payable to service providers in future years are as follows:

| | GROUP | COMPANY |
|-----------------------|--------|---------|
| | R'000 | R'000 |
| Due within one year | 12 362 | – |
| Due two to five years | – | – |
| | 12 362 | – |



Notes to the annual financial statements continued

for the 13 months ended 30 June 2018

27. Minimum lease payments receivable

Minimum lease payments comprise contractual rental income from investment properties and operating lease recoveries due in terms of signed lease agreements.

| | GROUP | COMPANY |
|------------------------------|-----------|---------|
| | R'000 | R'000 |
| Receivable within one year | 371 360 | – |
| Receivable two to five years | 924 423 | – |
| Receivable beyond five years | 378 738 | – |
| | 1 674 521 | – |

28. Related parties and related party transactions

Parties are considered related if one party has the ability to exercise control or significant influence over the other party in making financial or operational decisions.

Related parties with whom the company transacted during the year were:

| | GROUP | COMPANY |
|--|--------|---------|
| | R'000 | R'000 |
| Steven Herring Consulting CC | | |
| Relationship: Directorial | | |
| Interest received | 6 443 | – |
| Amount owing at reporting date | 77 760 | – |
| Heriot Trust Number 3 | | |
| Relationship: Directorial | | |
| Amount owing at reporting date | – | 200 |
| Terrace Drive Properties 34 Proprietary Limited | | |
| Relationship: Directorial | | |
| Interest received | – | 5 951 |
| Amount owing at reporting date | – | 97 880 |
| Heriot Trust Number 1 | | |
| Relationship: Directorial | | |
| Interest received | – | 1 069 |
| Amount owing at reporting date | – | 17 274 |
| HP10 Investments Proprietary Limited | | |
| Relationship: Directorial | | |
| Interest received | – | 11 437 |
| Amount owing at reporting date | – | 200 237 |
| Croszie Proprietary Limited | | |
| Relationship: Directorial | | |
| Amount owing at reporting date | – | 28 533 |

All transactions above were made on terms equivalent to those that prevail in arm's length transactions.

29. Financial risk management

The group's financial risk management objective is to manage the capital and financial risk exposure so that the group continues as a going concern and minimises adverse effects of financial risks on returns.

The group has exposure to the following risks from its use of financial instruments:

- Liquidity risk;
- Interest rate risk; and
- Credit risk.

The group's management policies are designed to ensure that there is an acceptable level of risk within the group as a whole.

29.1 Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial commitments as and when they fall due. This risk is managed by holding cash balances and a revolving loan facility and by regularly monitoring cash flows.

A maturity analysis of the group's financial liabilities at year-end is set out below:

| | Less than one year R'000 | One to five years R'000 | More than five years R'000 | Total R'000 |
|-----------------------------|--------------------------------|-------------------------------|----------------------------------|----------------|
| Interest-bearing borrowings | 403 886 | 1 421 560 | 77 729 | 1 903 175 |
| Derivative instrument | 812 | – | – | 812 |
| Trade and other payables | 59 071 | – | – | 59 071 |
| | 463 768 | 1 421 560 | 77 729 | 1 963 057 |

| | At amortised cost R'000 | At fair value through profit or loss R'000 | Total R'000 |
|---|----------------------------------|---|----------------|
| 29.2 Categories of financial instruments | | | |
| Financial assets | 34 788 | – | 34 788 |
| Trade and other receivables | 17 035 | – | 17 035 |
| Financial assets | 77 760 | – | 77 760 |
| Cash and cash equivalents | 113 081 | – | 113 081 |
| | 242 664 | – | 242 664 |
| Financial liabilities | | | |
| Interest-bearing borrowings | 1 614 922 | – | 1 614 922 |
| Interest accrual on interest-bearing borrowings | 288 254 | – | 288 254 |
| Derivative instruments | – | 812 | 812 |
| Trade and other payables | 54 511 | – | 54 511 |
| | 1 957 686 | 812 | 1 958 498 |



Notes to the annual financial statements continued

for the 13 months ended 30 June 2018

29. Financial risk management continued

29.3 Interest rate risk

The group is exposed to interest rate risk through its variable rate cash balances and interest-bearing borrowings. The group reduces its exposure to changes in interest rates by fixing interest rates in respect of borrowings by entering into fixed interest rate and swap agreements. At the reporting date, 45% of borrowings has been fixed.

An increase of 1% in the prime interest rate for the period would have increased the interest expense by R9,9 million in respect of the floating portion of the debt.

29.4 Credit risk management

Trade receivables, loans receivable and short-term cash investments are subject to credit risk.

Credit risk arises from the risk that a tenant may default or not meet its obligations timeously. To mitigate this risk, every new tenant is assessed for creditworthiness, a cash deposit or rental guarantee is obtained and the financial position of the tenants is monitored on an ongoing basis. Allowance is made for specific doubtful debts and credit risk is therefore limited to the carrying amount of the financial asset at year-end. The risk is further minimised as receivables are spread over a wide tenant base.

Mpact Limited and Shoprite Checkers are the group's only major customers with revenue of R72,2 million and R47,8 million respectively (18,7% and 12,4% of total revenue), for the period under review.

29.5 Fair value hierarchy for financial instruments and investment property

The fair value hierarchy reflects the significance of the inputs used in making fair value measurements. IFRS 13 requires that an entity disclose for each class of financial instrument and investment property measured at fair value, the level of fair value hierarchy into which the fair value measurements are categorised in their entirety.

The fair value hierarchy has the following levels:

Level 1 – fair value is determined from quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – fair value is determined through the use of valuation techniques based on observable inputs, either directly or indirectly

Level 3 – fair value is determined through the use of valuation techniques using significant inputs (refer note 2 for assumptions applied to valuation of investment property).

| | Fair value R'000 | Level 1 R'000 | Level 2 R'000 | Level 3 R'000 |
|-----------------------|---------------------|------------------|------------------|------------------|
| Assets | | | | |
| Investment properties | 4 451 963 | – | – | 4 451 963 |
| Liabilities | | | | |
| Derivative instrument | 812 | – | 812 | – |
| | 812 | – | 812 | – |

30. Capital management

In terms of the memorandum of incorporation, the company has limited consolidated borrowings to 60% of consolidated assets. However, to manage the group's risk, the board aims to limit borrowings to below 45% of property assets.

As at the reporting date, the group's loan to value ratio was:

| | GROUP |
|---|-----------|
| | R'000 |
| Property assets | 4 451 963 |
| Interest-bearing borrowings net of cash | 1 501 841 |
| Loan to value (%) | 33,7 |

31. Events after the balance sheet date

The directors are not aware of any material event which occurred after the reporting date and up to the date of this integrated report.

32. Comparative figures

No comparative figures have been presented as the company was incorporated on 18 April 2017 and only commenced trading on 5 June 2017.



Notes to the annual financial statements continued

for the 13 months ended 30 June 2018

33. Segmental analysis

| | GROUP | | | | | | |
|--|------------------------|---------------------------------------|------------------|-------------------------------------|---|-------------------------------|------------------------|
| | GLA* m ² | Invest- ment property* R'000 | Revenue R'000 | Change in fair value R'000 | Straight- line rental income accrual R'000 | Property expenses R'000 | Net income R'000 |
| Retail | 137 345 | 2 304 450 | 246 679 | 186 908 | (517) | (64 249) | 368 822 |
| Industrial | 326 113 | 1 680 475 | 180 949 | 128 690 | (18 797) | (27 409) | 263 433 |
| Office | 12 445 | 266 775 | 29 181 | 6 989 | 292 | (7 373) | 29 089 |
| Specialised | # | 93 400 | 7 104 | 4 003 | (63) | (345) | 10 699 |
| Property under development | 9 988 | 106 863 | – | – | – | – | – |
| Net property income | 485 891 | 4 451 963 | 463 913 | 326 590 | (19 085) | (99 376) | 672 042 |
| Changes in fair values – derivative financial instrument | | | | | | | 1 993 |
| Other income | | | | | | | 10 984 |
| Profit on disposal of investment property | | | | | | | 90 |
| Equity-accounted profits (net of taxation) | | | | | | | 781 |
| Administrative and corporate costs | | | | | | | (34 481) |
| Net finance charges | | | | | | | (135 371) |
| Taxation | | | | | | | (6 098) |
| Total comprehensive income for the year | | | | | | | 509 940 |
| Distributable earnings adjustments | | | | | | | |
| Straight-line rental income accrual | | | | | | | 19 085 |
| Changes in fair values | | | | | | | (328 584) |
| Profit on disposal of investment property | | | | | | | (90) |
| Equity-accounted profits (net of taxation) | | | | | | | (781) |
| Dividend from associate | | | | | | | 1 500 |
| Antecedent interest adjustment | | | | | | | 249 |
| Attributable to minorities | | | | | | | (3 451) |
| Deferred taxation | | | | | | | 5 065 |
| Distributable earnings | | | | | | | 202 933 |

The specialised property comprises 8 382ha² of industrial farms and the inclusion of this, measured by hectare, in the analysis by GLA would not provide meaningful analysis of the portfolio as a whole.

* Excludes 717m² owner-occupied property.

Shareholder analysis

Company: Heriot REIT Limited

Register date: 29 June 2018

Issued share capital: 256 295 858

| | Number of shareholdings | % | Number of shares | % |
|---|----------------------------|---------------|---------------------|---------------|
| Shareholder spread | | | | |
| 1 – 1 000 shares | 34 | 61,82 | 4 188 | 0,00 |
| 1 001 – 10 000 shares | 2 | 3,64 | 9 983 | 0,00 |
| 10 001 – 100 000 shares | 7 | 12,73 | 670 000 | 0,26 |
| 100 001 – 1 000 000 shares | 5 | 9,09 | 3 700 000 | 1,44 |
| 1 000 001 shares and over | 7 | 12,73 | 251 911 687 | 98,29 |
| Total | 55 | 100,00 | 256 295 858 | 100,00 |
| Distribution of shareholders | | | | |
| Close corporations | 1 | 1,82 | 5 000 | 0,00 |
| Individuals | 46 | 83,64 | 11 016 210 | 4,30 |
| Private companies | 6 | 10,91 | 244 274 648 | 95,31 |
| Treasury stock | 1 | 1,82 | 900 000 | 0,35 |
| Trust | 1 | 1,82 | 100 000 | 0,04 |
| Total | 55 | 100,00 | 256 295 858 | 100,00 |
| Public/non-public shareholders | | | | |
| Non-public shareholders | 6 | 10,91 | 236 636 220 | 92,33 |
| Directors and associates of the company | 5 | 9,09 | 235 736 220 | 91,98 |
| Treasury stock | 1 | 1,82 | 900 000 | 0,35 |
| Public shareholders | 49 | 89,09 | 19 659 638 | 7,67 |
| Total | 55 | 100,00 | 256 295 858 | 100,00 |
| Beneficial shareholders holding 3% or more | | | | |
| S Herring | | | 222 653 881 | 86,87 |
| R Herring | | | 12 227 339 | 4,77 |
| Total | | | 234 881 220 | 91,64 |



Notice of annual general meeting



Heriot REIT Limited

(Incorporated in the Republic of South Africa)

(Registration number 2017/167697/06)

(Approved as a REIT by the JSE)

JSE share code: HET

ISIN: ZAE000246740

(Heriot or the company)

Notice is hereby given to the shareholders of the company as at Friday, 19 October 2018, being the record date to receive the AGM notice in terms of section 59(1)(a) of the Companies Act of South Africa ("Companies Act"), that the annual general meeting of the company will be held in the boardroom, Suite 1, Ground Floor, 3 Melrose Boulevard, Melrose Arch, at 12:00 on Friday, 7 December 2018 to (i) consider and, if deemed fit to pass, with or without modification, the following ordinary and special resolutions, in the manner required by the Companies Act, as read with the JSE Limited ("JSE") Listings Requirements ("JSE Listings Requirements") and (ii) deal with such other business as may lawfully be dealt with at the meeting, which meeting is to be participated in and voted at by shareholders registered as such as at Friday, 30 November 2018, being the record date to participate in and vote at the annual general meeting in terms of section 62(3)(a), read with section 59(1)(b), of the Companies Act. The last day to trade, participate in and vote at the annual general meeting is therefore Tuesday, 27 November 2018.

NB: Section 63(1) of the Companies Act – Identification of meeting participants

Kindly note that meeting participants (including proxies) are required to provide reasonably satisfactory identification before being entitled to attend or participate in a shareholders' meeting. Acceptable forms of identification include valid identity documents, drivers' licences and passports.

Ordinary resolutions

Ordinary resolution 1: Adoption of annual financial statements

"Resolved that the annual financial statements of the company, including the reports of the directors, auditor, the audit and risk committee and the social and ethics committee for the 13 months ended

30 June 2018, be and are hereby received and adopted."

Ordinary resolution 2: Confirmation of appointment of director

"Resolved that the appointment of Richard Lawrence Herring as a director and the chief executive officer, be and is hereby confirmed."

An abridged curriculum vitae of Mr Richard Lawrence Herring is included in the integrated annual report of which this notice forms part.

The board of directors of Heriot (the "board") has considered Richard's qualifications and experience and recommends that Richard's appointment as a director of the company be confirmed.

Ordinary resolution 3: Confirmation of appointment of director

"Resolved that the appointment of Janys Ann Finn as a director and the chief financial officer, be and is hereby confirmed."

An abridged curriculum vitae of Ms Janys Ann Finn is included in the integrated annual report of which this notice forms part.

The board has considered Janys' qualifications and experience and recommends that Janys' appointment as a director of the company be confirmed.

Ordinary resolution 4: Confirmation of appointment of director

"Resolved that the appointment of Steven Bernard Herring as a non-executive director of the company be and is hereby confirmed."

An abridged curriculum vitae of Mr Steven Bernard Herring is included in the integrated annual report of which this notice forms part.

The board has considered Steven's qualifications and experience and recommends that Steven's appointment as a director of the company be confirmed.

Ordinary resolution 5: Confirmation of appointment of director

"Resolved that the appointment of Stephen David Friend as a non-executive director and chairman of the company be and is hereby confirmed."

An abridged curriculum vitae of Mr Stephen David Friend is included in the integrated annual report of which this notice forms part.

The board has considered Dave's qualifications and experience and recommends that Dave's appointment as a director of the company be confirmed.

Ordinary resolution 6: Confirmation of appointment of director

"Resolved that the appointment of Selwyn Joel Blieden as an independent non-executive and lead independent director of the company be and is hereby confirmed."

An abridged curriculum vitae of Mr Selwyn Joel Blieden is included in the integrated annual report of which this notice forms part.

The board has considered Selwyn's qualifications and experience and recommends that Selwyn's appointment as a director of the company be confirmed.

Ordinary resolution 7: Confirmation of appointment of director

"Resolved that the appointment of Trevor John Cohen as an independent non-executive director of the company be and is hereby confirmed."

An abridged curriculum vitae of Mr Trevor John Cohen is included in the integrated annual report of which this notice forms part.

The board has considered Trevor's qualifications and experience and recommends that Trevor's appointment as a director of the company be confirmed.

Ordinary resolution 8: Confirmation of appointment of director

"Resolved that the appointment of Nelson Ngale as an independent non-executive director of the company be and is hereby confirmed."

An abridged curriculum vitae of Mr Nelson Ngale is included in the integrated annual report of which this notice forms part.

The board has considered Nelson's qualifications and experience and recommends that Nelson's appointment as a director of the company be confirmed.

Ordinary resolution 9: Re-appointment of auditor

"Resolved that Grant Thornton, together with Paul Richard Badrick as the designated audit partner, be and are hereby appointed as auditor of the company, with effect from the conclusion of this annual general meeting."

The audit and risk committee has recommended Grant Thornton for appointment as independent auditor of the company pursuant to section 90(2)(c) of the Companies Act and further confirms their suitability for appointment together with the designated audit partner, Paul Richard Badrick, in accordance with paragraph 3.84(g)(iii) of the JSE Listings Requirements.

Ordinary resolution 10: Appointment of audit and risk committee members

"Resolved that the members of the company's audit and risk committee set out below be and are hereby appointed, each by way of a separate resolution, with effect from the end of this meeting in terms of section 94(2) of the Companies Act. The membership as proposed by the board is:

- 10.1** Selwyn Joel Blieden (chairman of the audit and risk committee), subject to the passing of ordinary resolution 6 above;
- 10.2** Trevor John Cohen, subject to the passing of ordinary resolution 7 above; and
- 10.3** Nelson Ngale, subject to the passing of ordinary resolution 8 above."



All members of the audit and risk committee are independent non-executive directors. Brief curricula vitae of Selwyn Joel Blieden, Trevor John Cohen and Nelson Ngale are included in the integrated annual report of which this notice forms part.

Ordinary resolution 11: Approval of remuneration policy and remuneration implementation report

Ordinary resolution 11.1: Approval of remuneration policy

"Resolved that, through a non-binding advisory vote, the company's remuneration policy which is disclosed on page 28 of the integrated annual report, be and is hereby approved."

Ordinary resolution 11.2: Approval of remuneration implementation report

"Resolved that, through a non-binding advisory vote, the company's remuneration implementation report, as disclosed on page 28 of the integrated annual report, be and is hereby approved."

In line with the King IV Report on Corporate Governance, the remuneration policy and the remuneration implementation report must be tabled at each annual general meeting, with both subject to separate non-binding advisory votes. This allows shareholders to express their views on the company's remuneration structures and policies.

In the event that either the remuneration policy or the remuneration implementation report, or both, are voted against by 25% or more of the voting rights exercised, the board is committed to actively engaging with shareholders in this regard, in order to address all legitimate and reasonable objections and concerns.

Ordinary resolution 12: General authority to issue shares for cash

"Resolved that, subject to the restrictions set out below and subject to the provisions of the Companies Act and the JSE Listings Requirements, the directors of the company be and are hereby authorised until this authority lapses at the next annual general meeting of the company or 15 months from the date on which this resolution is passed, whichever is the earlier date, to allot and issue shares of the company for cash, on the basis that:

- a. the shares which are the subject of the issue for cash must be of a class already in issue or, where this is not the case, must be limited to such shares or rights as are convertible into a class already in issue;
- b. the allotment and issue of shares for cash shall be made only to persons qualifying as "public shareholders", as defined in the JSE Listings Requirements, and not to "related parties";
- c. the total aggregate number of shares which may be issued for cash shall not exceed 25 629 585 shares being 10% of the company's issued shares as at the date of this notice of annual general meeting, provided that:
 - i. any shares issued under this authority, prior to this authority lapsing, shall be deducted from the 25 629 585 shares which the company is authorised to issue in terms of this authority; and
 - ii. in the event of a sub-division or consolidation of shares prior to this authority lapsing, the existing authority shall be adjusted accordingly to represent the same allocation ratio;
- d. the maximum discount at which shares may be issued is 10% of the weighted average traded price of such shares measured over the 30 business days prior to the date that the price of the issue is agreed between the company and the party subscribing for the shares; and
- e. after the company has issued shares in terms of this general authority to issue shares for cash representing, on a cumulative basis within a financial year, 5% or more of the number of shares in issue prior to that issue, the company shall publish an announcement containing full details of that issue, including, the number of shares issued, the average discount to the weighted average traded price of the shares over the 30 business days prior to the date that the issue is agreed in writing between the company and the party/ies subscribing for the shares and an explanation, including supporting documentation (if any) of the intended use of the funds."

Special resolutions

Special resolution 1: Approval of remuneration payable to non-executive directors

"Resolved as a special resolution in terms of section 66(9) of the Companies Act, as read with section 65(11)(h), and subject to the provisions of the company's memorandum of incorporation, that the company be and it is hereby authorised to pay remuneration to its non-executive directors for their service as directors for the period of two years from the passing of this resolution or until its renewal, whichever is the earlier date as follows:

| Position | Fees (excluding VAT) |
|---|----------------------|
| Chairman | R325 000 per annum |
| Non-executive director | R300 000 per annum |
| Audit and risk committee (including chairperson) | R25 000 per meeting |
| Social and ethics committee (including chairperson) | R25 000 per meeting |
| Remuneration and nomination committee (including chairperson) | R25 000 per meeting |
| Investment committee (including chairperson) | R25 000 per meeting |

Reason and effect of special resolution 1

The above rates have been proposed to ensure that the remuneration of non-executive directors remains competitive, in order to enable the company to retain and attract persons of the calibre, appropriate capabilities, skills and experience required in order to make meaningful contributions to the company. The remuneration proposed is considered to be both fair and reasonable and in the best interests of the company.

Special resolution 2: Repurchase of shares

"Resolved as a special resolution that, subject to the Companies Act, the JSE Listings Requirements and the restrictions set out below, the repurchase of shares of the company either by the company or by any subsidiary of the company be and is hereby authorised by way of a general authority, on the basis that:

- a. the general authority given in terms of this special resolution shall remain in force from the date of passing of this special resolution until the conclusion of the next annual general meeting of the company or 15 months from the date on which this resolution is passed, whichever is the earlier date;
- b. the general authority shall provide authorisation to the board of directors to repurchase on behalf of the company, shares in the issued share capital of the company as follows:
 - i. It will be limited, in any financial year of the company, to a maximum of 20% of the issued share capital of the company (or 10% of the issued share capital of the company where the repurchase is effected by a subsidiary) as at the date on which this special resolution is passed;
 - ii. The repurchase of shares issued by the company may not be at a price greater than 10% above the weighted average of the market value at which Heriot shares of the same class traded on the JSE for the five business days immediately preceding the date on which the repurchase of shares is effected;
 - iii. Any such repurchase will be implemented through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counterparty;
 - iv. An announcement will be published as soon as the company or any of its subsidiaries has repurchased ordinary shares constituting, on a cumulative basis, 3% of the number of ordinary shares in issue at the time that this general authority is granted and for each 3% in aggregate of the initial number of that class acquired thereafter. Such announcement must contain full details of such repurchases;
 - v. The company (or any subsidiary) must be authorised to do so in terms of its memorandum of incorporation;
 - vi. At any point in time, the company may only appoint one agent to effect any repurchase(s) on the company's behalf; and



- vii. Repurchases may not take place during a prohibited period as defined in paragraph 3.67 of the JSE Listings Requirements unless there is a repurchase programme in place, the dates and quantities of shares to be repurchased during the prohibited period are fixed, and full details thereof have been submitted to the JSE in writing prior to commencement of the prohibited period;
- c. the exercise by the directors of the authority to procure the repurchase by the company's subsidiaries of shares in terms of (b) shall be subject, mutatis mutandis, to the same terms and conditions as those set out above; and
- d. a resolution has been passed by the board of the company or its subsidiaries authorising the repurchase, and the company has passed the solvency and liquidity test as set out in section 4 of the Companies Act, and that there have been no material changes to the financial position of the company since the application of the solvency and liquidity test by the board."

Having considered the aggregate effect of the maximum repurchase of 20% of the company's issued share capital in any one financial year pursuant to the general authority to repurchase shares, the board of directors is of the opinion that, for a period of 12 months after the date of this notice of annual general meeting:

- the company and the group will be able to repay their debts in the ordinary course of business;
- the company's and the group's assets will be in excess of the liabilities of the company and the group. For this purpose, the assets and liabilities should be recognised and measured in accordance with the accounting policies used in the latest audited group annual financial statements; and
- the company's and the group's ordinary share capital, reserves and working capital will be adequate for ordinary business purposes.

The board is of the opinion that this authority should be in place so as to enable the company, as and when the opportunity presents itself, to repurchase shares.

The following additional information is provided in terms of the JSE Listings Requirements for purposes of this general authority:

- Major beneficial shareholders – see "analysis of shareholders" section in Heriot's 2018 audited annual financial statements (page 73); and
- Share capital of the company – see note 11 on page 57 in the audited annual financial statements.

Reason for and effect of special resolution 2

The reason for the passing of special resolution 2 is to authorise the company to repurchase shares issued by it and to enable its subsidiary companies to acquire shares in its share capital.

The effect of the passing of special resolution 2 is that the company is authorised to repurchase shares issued by it and that the company's subsidiary companies will be able to repurchase shares in the share capital of the company, as set out above.

Directors' responsibility statement

The directors, whose names appear in this notice of the annual general meeting, collectively and individually accept full responsibility for the accuracy of the information pertaining to this special resolution and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement false or misleading and that all reasonable enquiries to ascertain such facts have been made and that the special resolution contains all necessary information.

Material changes

Other than the facts and developments reported on in the integrated annual report, there have been no material changes in the affairs or financial position of the company and its subsidiaries since the date of signature of the audit report and up to the date of this notice.

Special resolution 3: Financial assistance to related and inter-related parties

"Resolved that to the extent required by the Companies Act, the board may, subject to compliance with the requirements of the company's memorandum of incorporation, the Companies Act and the JSE Listings Requirements, authorise the company to provide direct or indirect financial assistance as contemplated in section 45 of the Companies Act by way of loans, guarantees, the provision of security or otherwise, to any of its present or future subsidiaries and/or any other company or corporation that is or becomes related or inter-related (as defined in the Companies Act) to the company for any purpose or in connection with any matter, such authority to endure for a period of two years from the date of the passing of this special resolution."

Reason for and effect of special resolution 3

The company would like the ability to provide financial assistance, if necessary, in accordance with section 45 of the Companies Act. Under the Companies Act, the company will, however, require the special resolution referred to above to be adopted. In the circumstances and in order to, inter alia, ensure that the company's subsidiaries and other related and inter-related companies and corporations have access to financing and/or financial backing from the company, it is necessary to obtain the approval of shareholders, as set out in special resolution 3. Therefore, the reason for, and effect of, special resolution 3 is to permit the company to provide direct or indirect financial assistance (within the meaning attributed to that term in section 45 of the Companies Act) to the entities referred to in special resolution 3.

Ordinary resolution 13: Signature of documentation

"Resolved that any director of the company or the company secretary be and is hereby authorised to sign all such documents and do all such things as may be necessary or incidental to the implementation of ordinary resolutions 1 to 13, (including non-binding ordinary resolutions 12.1 and 12.2) and special resolutions 1, 2 and 3."

In order for:

- a. each of ordinary resolutions 1 to 11 and ordinary resolution 13 to be adopted, the support of more than 50% of the total number of votes exercisable by shareholders, present in person or by proxy, is required;
- b. ordinary resolution 12 to be adopted, the support of at least 75% of the total number of votes exercisable by shareholders, present in person or by proxy, is required; and
- c. each of special resolutions 1, 2 and 3 to be adopted, the support of at least 75% of the total number of votes exercisable by shareholders, present in person or by proxy, is required.

Quorum

A quorum for the purposes of considering the resolutions above shall consist of three shareholders of the company personally present or represented by proxy (and if the shareholder is a body corporate, the representative of the body corporate) and entitled to vote at the annual general meeting. In addition, a quorum shall comprise 25% of all voting rights entitled to be exercised by shareholders in respect of the resolutions above.

Form of proxy

In terms of section 62(3) (e) of the Companies Act:

- a shareholder who is entitled to attend and vote at the annual general meeting is entitled to appoint a proxy or two or more proxies to attend and participate in and vote at the annual general meeting in the place of the shareholder, by completing the form of proxy in accordance with the instructions set out therein; and
- a proxy need not be a shareholder of the company.

A form of proxy is attached for the convenience of any Heriot shareholder holding certificated shares who cannot attend the annual general meeting of Heriot shareholders, and/or who wishes to be represented thereat. Forms of proxy may also be obtained on request from the company's registered office. For administrative purposes, the completed forms of proxy should be deposited at, posted or emailed to the office of the transfer secretaries of the company, Computershare Investor Services



Proprietary Limited, 15 Biermann Avenue, Rosebank 2196 (Po Box 61051, Marshalltown 2107), proxy@computershare.co.za to be received by 12.00 on Thursday, 6 December 2018 to allow for processing of the proxy forms. Alternatively, the form of proxy may be handed to the chairman of the annual general meeting or to the transfer secretaries at the annual general meeting at any time prior to the commencement of the annual general meeting or prior to voting on any resolution proposed at the annual general meeting. Any member who completes and lodges a form of proxy will nevertheless be entitled to attend and vote in person at the annual general meeting should the member subsequently decide to do so.

Shareholders who have already dematerialised their shares through a Central Securities Depository Participant ("CSDP") or broker and who wish to attend the annual general meeting of Heriot shareholders must instruct their CSDP or broker to issue them with the necessary Letter of Representation to attend.

Dematerialised Heriot shareholders, who have elected own-name registration in the sub-register through a CSDP and who are unable to attend, but wish to vote at the annual general meeting of Heriot shareholders, must complete and return the attached form of proxy and lodge it with the transfer secretaries of the company, by 12.00 on Thursday, 6 December 2018 to allow for processing. Alternatively, the form of proxy may be handed to the chairman of the annual general meeting at any time prior to the commencement of the annual general meeting or prior to voting on any resolution proposed at the annual general meeting.

Dematerialised Heriot shareholders, who have not elected own-name registration in the sub-register through a CSDP and who are unable to attend but who wish to vote at the annual general meeting of Heriot shareholders should ensure that the person or entity (such as a nominee) whose name has been entered into the sub-register maintained by a CSDP or broker completes and returns the attached relevant forms of proxy in terms of which they appoint a proxy to vote at the annual general meeting of Heriot shareholders.

Electronic participation

Shareholders or their proxies may participate in the meeting by way of telephone conference call. Shareholders or their proxies who wish to participate in the annual general meeting via the teleconference facility will be required to advise the company thereof by no later than 12.00 on Thursday, 6 December 2018 by submitting, by email to the company secretary at Gillian.Prestwich@computershare.co.za or by fax to 011 688 5243, for the attention of Gillian Prestwich, relevant contact details including email address, cellular number and landline, and full details of the shareholder's title to the shares issued by the company together with proof of identity, in the form of copies of identity documents and share certificates (in the case of certificated shareholders), and (in the case of dematerialised shareholders) written confirmation from the shareholder's CSDP confirming the shareholder's title to the dematerialised shares. Upon receipt of the required information, the shareholder concerned will be provided with a secure code and instructions to access the teleconference facility during the annual general meeting.

Shareholders who wish to participate in the annual general meeting by way of telephone conference call must note that they will not be able to vote during the annual general meeting. Such shareholders, should they wish to have their vote counted at the annual general meeting, must, to the extent applicable, (i) complete the form of proxy; or (ii) contact their CSDP or broker, in both instances, as set out above.

By order of the board



CIS Company Secretaries Proprietary Limited
Company secretary

Johannesburg
25 October 018

Form of proxy



Heriot REIT Limited

(Incorporated in the Republic of South Africa)

(Registration number 2017/167697/06)

(Approved as a REIT by the JSE)

JSE share code: HET

ISIN: ZAE000246740

(Heriot or the company)

For use by holders of certificated Heriot ordinary shares or holders of dematerialised Heriot ordinary shares held through a Central Securities Depository Participant ("CSDP") or broker and who have selected own-name registration, at the annual general meeting of the company to be held at 12.00 on Friday, 7 December 2018 (or such later date as is advised on SENS and in the press in relation to any adjournment of the annual general meeting) which will be held in the boardroom, Suite 1, Ground Floor, 3 Melrose Boulevard, Melrose Arch.

Additional forms of proxy are available from the transfer secretaries of the company.

Not for use by holders of the company's dematerialised ordinary shares who have not selected own-name registration. The CSDP or broker, as the case may be, of dematerialised Heriot ordinary shareholders who have not elected own-name registration, should contact such Heriot ordinary shareholders to ascertain the manner in which they wish to cast their vote at the annual general meeting and thereafter cast their vote in accordance with their instructions. Such instructions should be communicated to the CSDP or broker, as the case may be, in terms of the agreement between the Heriot ordinary shareholder and his/her CSDP or broker. If such dematerialised Heriot ordinary shareholder concerned has not been contacted, it would be advisable for them to contact their CSDP or broker, as the case may be, and furnish them with their instructions. Dematerialised Heriot ordinary shareholders who are not own-name dematerialised Heriot ordinary shareholders and who wish to attend the annual general meeting must obtain their necessary letter of representation from their CSDP or broker, as the case may be, and submit same to Heriot's transfer secretaries to be received by 12:00 on Thursday, 6 December 2018 to allow for processing. Alternatively, the letter of representation may be handed to the chairman of the annual general meeting at any time prior to the commencement of the annual general meeting or prior to voting on any resolution proposed at the annual general meeting. This must be effected in terms of the agreement entered into between the dematerialised Heriot ordinary shareholder and his/her/its CSDP or broker.

If the CSDP or broker, as the case may be, does not obtain instructions from such dematerialised Heriot ordinary shareholder, they will be obliged to act in terms of the mandate furnished to them, or, if the mandate is silent in this regard, to abstain from voting.

I/We _____ (names in block letters)

of _____ (address in block letters)

being the holder/s of _____ shares in the company do hereby appoint

_____ of _____ or failing him/her

_____ of _____ or failing him/her

the chairman of the annual general meeting as my/our proxy to act for me/us at the annual general meeting of the company to be held in the boardroom, Suite 1, Ground Floor, 3 Melrose Boulevard, Melrose Arch, at 12.00 on Friday, 7 December 2018, and at any adjournment thereof, and to vote for me/us on my/our behalf in respect of the undermentioned resolutions.



| | For | Against | Abstain |
|---|-----|---------|---------|
| Ordinary resolution 1: Adoption of annual financial statements | | | |
| Ordinary resolution 2: Confirmation of appointment of Richard Lawrence Herring as a director and CEO of the company | | | |
| Ordinary resolution 3: Confirmation of appointment of Janys Ann Finn as a director and CFO of the company | | | |
| Ordinary resolution 4: Confirmation of appointment of Steven Bernard Herring as a director of the company | | | |
| Ordinary resolution 5: Confirmation of appointment of Stephen David Friend as chairman and director of the company | | | |
| Ordinary resolution 6: Confirmation of appointment of Selwyn Joel Blieden as lead independent director of the company | | | |
| Ordinary resolution 7: Confirmation of appointment of Trevor John Cohen as a director of the company | | | |
| Ordinary resolution 8: Confirmation of appointment of Nelson Ngale as a director of the company | | | |
| Ordinary resolution 9: Re-appointment of the auditor | | | |
| Ordinary resolution 10: Re-appointment of the members of the audit and risk committee: | | | |
| 10.1 Selwyn Joel Blieden (<i>chairman</i>) | | | |
| 10.2 Trevor John Cohen | | | |
| 10.3 Nelson Ngale | | | |
| Ordinary resolution number 11: Approval of the remuneration policy and remuneration implementation report | | | |
| 11.1 Approval of remuneration policy | | | |
| 11.2 Approval of remuneration implementation report | | | |
| Ordinary resolution 12: General authority to issue shares for cash | | | |
| Special resolution 1: Approval of remuneration payable to non-executive directors | | | |
| Special resolution 2: General authority to repurchase shares | | | |
| Special resolution 3: Financial assistance to related or inter-related parties | | | |
| Ordinary resolution 13: Signature of documentation | | | |

One vote per share held by shareholders recorded in the register on the voting record date.

Mark "For", "Against" or "Abstain" as required. If no options are marked the proxy will be entitled to vote as he/she thinks fit.

Please read notes on the reverse side hereof.

Signed at _____ on the _____ day of _____ 2018

Signature _____ Assisted by (where applicable) _____

Notes to the form of proxy

1. This form of proxy is only to be completed by those ordinary shareholders who are:

1.1 holding ordinary shares in certificated form; or

1.2 recorded in the sub-register in electronic form in their "own name",

on the date on which shareholders must be recorded as such in the register maintained by the transfer secretaries, Computershare Investor Services Proprietary Limited, in order to vote at the annual general meeting being Friday, 7 December 2018, and who wish to appoint another person to represent them at the annual general meeting.

2. Certificated shareholders wishing to attend the annual general meeting have to ensure beforehand with the transfer secretaries of the company (being Computershare Investor Services Proprietary Limited) that their shares are registered in their name.

3. Beneficial shareholders whose shares are not registered in their "own name", but in the name of another, for example, a nominee, may not complete a proxy form, unless a form of proxy is issued to them by a registered shareholder and they should contact the registered shareholder for assistance in issuing instruction on voting their shares, or obtaining a proxy to attend, speak and, on a poll, vote at the annual general meeting.

4. A Heriot shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space. The person whose name stands first on the form of proxy and who is present at the Heriot annual general meeting of shareholders will be entitled to act as proxy to the exclusion of those whose names follow.

5. A proxy appointed by a Heriot shareholder in terms hereof may not delegate his authority to act on behalf of the Heriot shareholder to any other person.

6. If duly authorised, companies and other corporate bodies who are shareholders of the company having shares registered in their own name may, instead of completing this form of proxy, appoint a representative to represent them and exercise all of their rights at the meeting by giving written notice of the appointment of that representative. This notice will not be effective at the annual general meeting unless it is accompanied by a duly certified copy of the resolution or other authority in terms of which that representative is appointed and is received at Computershare Investor Services Proprietary Limited, at Rosebank Towers, 15 Biermann Avenue, Rosebank 2196 or emailed to proxy@computershare.co.za, to reach the company by 12.00 on Thursday, 6 December 2018 to allow for processing of the proxy forms. Alternatively, the form of proxy may be handed to the chairman of the annual general meeting at any time prior to the commencement of the annual general meeting or prior to voting on any resolution proposed at the annual general meeting.

7. A Heriot shareholder's instructions to the proxy must be indicated by means of a tick or a cross in the appropriate box provided. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of all the Heriot shareholder's votes exercisable thereat relating to the resolutions proposed in this form of proxy.

8. The completion and lodging of this form of proxy will not preclude the relevant Heriot shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such Heriot shareholder wish to do so. In addition to the foregoing, a Heriot shareholder may revoke the proxy appointment by (i) cancelling it in writing, or making a later inconsistent appointment of a proxy; and (ii) delivering a copy of the revocation instrument to the proxy, and to the company. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the Heriot shareholder as at the later of the date stated in the revocation instrument, if any; or the date on which the revocation instrument was delivered in the required manner.

9. The chairman of the annual general meeting may reject or accept any form of proxy which is completed and/or received other than in compliance with these notes.

10. Any alteration to this form of proxy, other than a deletion of alternatives, must be initialled by the signatory/ies.

11. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the company.

12. Where there are joint holders of Heriot shares:

12.1 any one holder may sign this form of proxy; and

12.2 the vote of the senior (for that purpose seniority will be determined by the order in which the names of shareholders appear in the register of members) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint holder(s) of Heriot shares.

13. This form of proxy may be used at any adjournment or postponement of the annual general meeting, including any postponement due to a lack of quorum, unless withdrawn by the Heriot shareholder.

14. The foregoing notes contain a summary of the relevant provisions of section 58 of the Companies Act, as required in terms of that section.



Shareholders' diary

| | |
|-----------------------------------|----------------------------|
| Financial year-end | 30 June |
| Annual general meeting | Friday, 7 December 2018 |
| Integrated annual report released | Wednesday, 31 October 2018 |

Corporate information

Heriot REIT Limited

(Registration number 2017/167697/07)
JSE share code: HET
ISIN: ZAE000246740

Registered office

Suite 1, 3 Melrose Boulevard
Melrose, Johannesburg 2196
(PO Box 652737, Benmore 2010)

Place and date of incorporation

Incorporated in South Africa on 18 April 2017

Company secretary

Gillian Mary Prestwich BA FCIS
CIS Company Secretaries Proprietary Limited
(Registration number 2006/024994/07)
Rosebank Towers
15 Biermann Avenue
Rosebank 2196
(PO Box 61051, Marshalltown 2107)

Directors

SD Friend (Chairperson)*
RL Herring (CEO)
JA Finn (CFO)
SJ Blieden**
T Cohen**
SB Herring*
N Ngale**

*Non-executive **Independent

Corporate advisor

Java Capital Proprietary Limited
(Registration number 2012/089864/07)
6A Sandown Valley Crescent
Sandown 2196
(PO Box 522606, Saxonwold 2132)

Designated advisor

Java Capital Trustees and Sponsors
Proprietary Limited
(Registration number 2006/005780/07)
6A Sandown Valley Crescent
Sandown 2196
(PO Box 522606, Saxonwold 2132)

Attorneys

Werksmans Incorporated
(Registration number 1990/007215/21)
155 5th Street
Sandton 2196
(Private Bag 10015, Sandton 2146)

Independent property valuer

Quadrant Properties Proprietary Limited
(Registration number 1995/003097/07)
16 North Road, Corner Jan Smuts Avenue
Dunkeld West 2196
(PO Box 1984, Parklands 2121)

Transfer secretaries

Computershare Investor Services Proprietary Limited
(Registration number 2004/003647/07)
Rosebank Towers
15 Biermann Avenue
Rosebank 2196
(PO Box 61051, Marshalltown 2107)

Bankers

FirstRand Bank Limited
(Registration number 1929/001225/06)
Mezzanine Floor
No 3 First Place, Bank City
Cnr Jeppe and Simmonds Street
Johannesburg 2001
(PO Box 786273, Sandton 2146)

Auditor

Grant Thornton Johannesburg
52 Corlett Drive
Wanderers Office Park
Illovo 2196
(Private Bax X28, Benmore 2010)



www.heriotreit.com