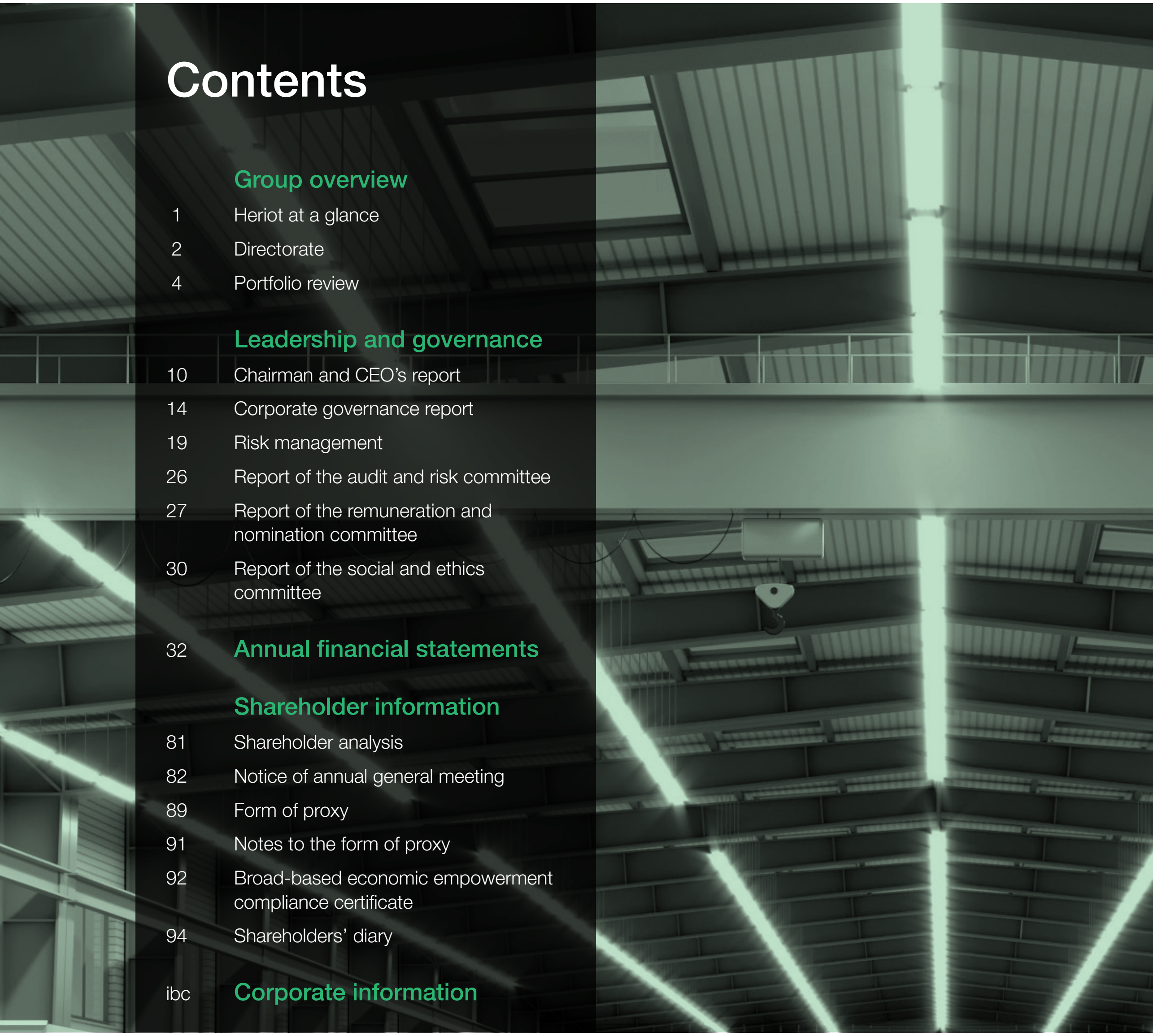
Heriot
REIT *Committed to excellence*

2019 Integrated report
for the year ended 30 June



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Forward-looking statements

This report contains certain forward-looking statements which are not considered to be forecasts but reflect the group's best expectations of future events. Actual results may differ from our expectations. The group cannot guarantee that any forward-looking statement will materialise and, accordingly, readers are cautioned not to place undue reliance on them. The group disclaims any intention and assumes no obligation to revise any forward-looking statement, even if new information becomes available, other than as stipulated by the JSE Listings Requirements and other applicable regulations. Any forward-looking statements contained in this report have not been reviewed or reported on by the company's auditor.

Heriot at a glance

Heriot REIT Limited ("Heriot", the "company" or the "group"), a property holding and investment company, is listed in the "Diversified REITs" sector on the Alternative Exchange of the JSE Limited ("JSE"). Heriot is invested in industrial, retail, office, residential and specialised properties valued at R4,59 billion situated in areas with high growth potential. The group's primary objective is to develop or acquire yield-enhancing assets within Southern Africa to create a stable and diverse portfolio for the purposes of generating capital growth and secure escalating net rental income streams.

INVESTMENT PROPERTY

43 properties

R4,587 billion

493 814 m² GLA

OVERALL VACANCY

1,3% at year end

0,1% after year end

NET ASSET VALUE

R11,57 per share

35,4%

LOAN TO VALUE

AVERAGE COST OF BORROWINGS

8,97%

TOTAL DIVIDEND

80,87 cents per share

Directorate

Executive directors

Richard Lawrence Herring (47)
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 Heriot's investment committee.

Committee member

Janys Ann Finn (55)
Chief financial officer
BCom, BAcc, CA(SA)

Janys, after serving articles at Grant Thornton, became the first female partner at 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 ("Redefine"), 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.

Committee member

Non-executive directors

Steven Bernard Herring (48)
Non-executive chairman
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 blue-chip tenants. In 2003, Steven put a team of professionals together and began constructing retail shopping centres, focusing on 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

Committee member

Selwyn Joel Blieden (47)
Lead independent director
Independent non-executive director
PhD (Cambridge), CFA

Selwyn is co-head of Caleo Private Equity, managing direct private equity investments in South Africa and several other jurisdictions. From 2015 until mid-2019, he led the commercial property finance business of Absa Bank (formerly Barclays Africa) in Africa, other than South Africa. Prior to taking on this role, Selwyn worked at the Rand Merchant Bank group for twelve years. He co-founded and managed Rand Merchant Bank's Opportunities in Global Real Estate portfolio which had exposure to international property assets exceeding US$250 million. Selwyn also led the structuring and corporate management of several property developments in Nigeria in his role as a member of the RMB Westport team, which managed a private equity real estate subsidiary of Rand Merchant Bank. 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.

Committee member

Trevor John Cohen (77)
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). 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.

Committee member

Robin Lockhart-Ross (61)
Independent non-executive director
CA(SA), BCom, Higher diploma (Accounting), B.Com (Hons) (Tax), MAcc (Tax)

Robin graduated with a Masters in Accounting (Tax) from the University of Natal. After completing articles at Pim Goldby (now Deloittes) in 1982, he spent time at the South African Revenue Services as a senior tax officer. In 1986, he joined PricewaterhouseCoopers as a tax manager, a position he held for two years prior to joining the Tongaat-Hulett Group as their group tax consultant. He was subsequently appointed as the financial director of Moreland Developments and Tongaat-Hulett Properties where he spent a further eight years.

From 1999 to 2003, Robin was head of risk at BoE Corporate: Property and Asset Finance, during which period he also acted as interim managing executive of NBS Homeloans and as chairman of Bond Choice Proprietary Limited. In 2003, he was appointed as head of risk at Nedbank Property Finance, a position that he held for 12 years. Subsequently, for the period November 2014 to June 2018, Robin held the position of managing executive of Nedbank CIB: Commercial Property Finance. During that period, Robin was the chairman of the Divisional Manco, enterprise wide risk committee and the investment committee. He was also a member of the CIB executive committee, enterprise wide risk committee and divisional credit committee.

Robin is currently an independent non-executive director of Fortress REIT Limited and Trematon Capital Investments Limited. He is also an independent external committee member of the RMB Property finance credit committee.

Nelson Ngale (56)
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.

Committee member

Committee memberships

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

Portfolio review

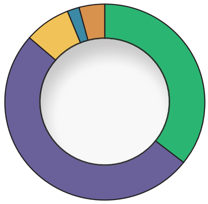
Property	Address
Retail	
Tsakane*	Modjadji and Malandela Streets, Tsakane, Brakpan
Tembisa	Cnr Andrew Mapheto Drive and Isimuku Road, Tembisa
Phokeng Mall	Sun City Main Road, Phokeng
Shoprite Fishhoek	54 Main Road, Fishhoek, Western Cape
Shoprite Sea Point	Main Road, The Towers, Sea Point, Cape Town
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 Streets, Burgersfort
Shoprite Athlone	Cnr Birchwood and Cornhill Streets, Athlone, Western Cape
Shoprite Kempton Park	Cnr West Street and Oal Avenue, Kempton Park, Johannesburg
Shoprite Rustenburg	10 Kroep Street, Ou Dorp, Rustenburg
Total retail	

Property	Address
Industrial	
Voltex Cleveland	11 Cleveland Road, Cleveland Ext 5
Hermans (Super Group) Midrand	875 and 876 Freight Road, Louwlardia, 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 Roads, 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
Imperial Bloemfontein*	Bloemfontein – 19 Hooflaan, Estoire, Bloemfontein
Imperial Goodwood*	Goodwood – 239 to 283 Voortrekker Road, Goodwood, Cape Town
Imperial Kimberley*	Kimberley – Corner Phkamile Mabija and Hull Streets, Kimberley
Imperial Mount Edgecombe*	Mount Edgecombe – 27 Siphosethu Road, Mount Edgecombe, Durban
Hagley	Nooiensfontein Road, Hagley, Cape Town
Total industrial	

GLA m²	Average rent per m²	Vacancy m²	Valuation R'000
32 118	170	226	421 000
25 014	189	–	688 000
16 918	118	430	230 000
3 497	118	–	49 500
2 638	136	–	52 500
5 532	76	82	78 000
1 500	–	10	8 000
16 257	136	–	305 000
15 079	163	–	305 000
3 832	95	–	45 500
6 799	47	–	55 000
8 161	88	–	106 000
137 345	**142**	**748**	**2 343 500**
8 966	27	–	30 500
3 069	163	–	45 000
34 100	46	–	184 000
23 867	41	–	124 000
10 505	28	–	42 900
28 894	34	–	133 000
11 357	44	–	74 000
20 409	26	–	77 000
24 936	17	–	58 000
23 000	66	–	174 500
49 822	79	–	209 000
18 605	48	–	128 500
6 635	44	–	42 700
13 500	43	–	94 500
17 906	55	–	85 500
4 000	52	–	15 425
2 356	62	–	10 300
18 136	53	–	77 350
8 086	16	500	32 500
328 149	**48**	**500**	**1 638 675**

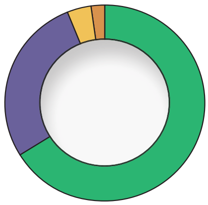
Sectoral profile

Value



- **35,6%** Industrial
- **50,8%** Retail
- **7,5%** Office
- **2,1%** Specialised
- **4,0%** Residential

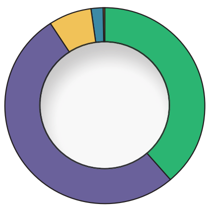
Total GLA (m²)*



- **66,3%** Industrial
- **27,8%** Retail
- **3,9%** Office
- **0,0%** Specialised
- **2,0%** Residential

** 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



- **38,8%** Industrial
- **52,2%** Retail
- **7,0%** Office
- **1,8%** Specialised
- **0,2%** Residential

Portfolio review continued

Property	Address
Office	
Super Group	27 Impala Road, Chislehurston, Sandton
Offices Melrose Arch – Unit 9a	Unit 9a, 1st Floor, 3 Melrose Boulevard, Melrose Arch, Johannesburg
Mondi Offices Melrose Arch	4th Floor, 3 Melrose Boulevard, Melrose Arch, Johannesburg
Hyundai*	Hyundai – Corner Lucas and Norman Roads, Bedfordview
Europcar*	Europcar – 16 Ernest Oppenheimer Avenue, Bruma, Johannesburg
Renault*	Renault – 10/12 Ernest Oppenheimer Avenue, 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	
Residential	
The Heriot	2 Adderley Street, Cape Town
Total residential	
Total investment property	

** Heriot owns a 50% undivided share in this property. The table above reflects 100% of the GLA of the property but only Heriot's 50% interest in the value of the property.*

^ 8,38 ha² of paper plantations are not included in the total GLA.

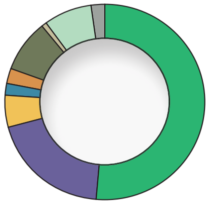
Property	Address
Owner occupied	
3 Melrose Boulevard	Suite 1, 3 Melrose Boulevard, Melrose Arch, Johannesburg
Total owner occupied	
Total portfolio	

The average annualised property portfolio yield is 8,28%.

GLA m²	Average rent per m²	Vacancy m²	Valuation R'000
3 702	253	–	117 000
309	315	–	10 300
3 094	174	611	95 000
6 050	124	–	57 250
2 766	119	–	24 100
2 574	88	–	17 400
18 495	**150**	**611**	**321 050**
*	61 R/ha	–	56 000
*	121 R/ha	–	21 500
*	73 R/ha	–	11 700
*	64 R/ha	–	9 450
	68,51 R/ha		**98 650**
9 825	187	4 743	185 000
9 825	**187**	**4 743**	**185 000**
493 814		**6 602**	**4 586 875**
717	–	–	23 200
717	**–**	**–**	**23 200**
494 531	**–**	**6 602**	**4 610 075**

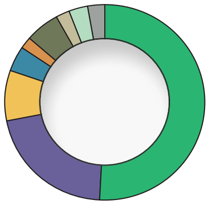
Geographic profile

Value



- **51,6%** Gauteng
- **19,5%** Western Cape
- **5,1%** KwaZulu-Natal
- **2,1%** Free State
- **2,5%** North West
- **8,4%** Mpumalanga
- **0,9%** Eastern Cape
- **7,8%** Limpopo
- **2,1%** Namibia

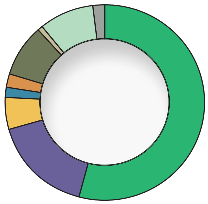
Total GLA (m²)*



- **51,0%** Gauteng
- **21,0%** Western Cape
- **8,5%** KwaZulu-Natal
- **4,1%** Free State
- **2,0%** North West
- **5,6%** Mpumalanga
- **2,1%** Eastern Cape
- **3,0%** Limpopo
- **2,7%** Namibia

* *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



- **54,2%** Gauteng
- **16,6%** Western Cape
- **5,1%** KwaZulu-Natal
- **1,8%** Free State
- **2,2%** North West
- **8,6%** Mpumalanga
- **0,9%** Eastern Cape
- **8,8%** Limpopo
- **1,8%** Namibia

Tenant analysis profile

	Based on rental %	Based on GLA (m²)* %	Based on GLA (ha) %
A	75,4	85,4	100,0
B	13,1	7,0	–
C	11,5	6,3	–
Vacant	–	1,3	–
	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 286 tenants.

Weighted average lease escalation

Sector	Based on GLA (m²)* %	Based on GLA (ha)* %
Retail	6,6	–
Office	7,6	–
Industrial	7,8	–
Residential	–	–
Specialised	–	6,0
Weighted average/total	**7,3**	**6,0**

Lease expiry profile

	Total GLA (ha)* %	Total GLA (m²)* %	Total gross rental %
Total portfolio			
Vacant	–	1,3	–
Monthly	–	–	–
June 2020	–	3,5	6,0
June 2021	–	28,6	31,5
June 2022	–	6,9	8,4
June 2023	–	8,8	11,1
June 2024	–	13,6	13,6
> June 2025	100,0	37,3	29,4
Total	**100,0**	**100,0**	**100,0**

** The analysis by GLA is split between industrial farms of 8 382 hectares and the rest of the portfolio. Given the nature of industrial farms and measurement of land area by hectare, inclusion thereof in the analysis by GLA of the rest of the portfolio would not be a meaningful analysis of the portfolio as a whole. All industrial farms are fully let by A-classified tenants and categorised as specialised.*

Lease expiry profile continued

	Total GLA (m²) %	Total gross rental %
Industrial		
Vacant	0,2	–
Monthly	–	–
June 2020	–	0,4
June 2021	30,0	32,9
June 2022	5,2	4,8
June 2023	5,6	5,6
June 2024	13,2	9,5
> June 2025	45,8	46,8
Total	**100,0**	**100,0**
Retail		
Vacant	0,5	–
Monthly	–	–
June 2020	9,9	7,8
June 2021	30,2	36,9
June 2022	11,8	12,8
June 2023	16,4	16,2
June 2024	12,2	12,6
> June 2025	19,0	13,7
Total	**100,0**	**100,0**
Office		
Vacant	3,3	–
Monthly	–	–
June 2020	2,3	3,5
June 2021	1,7	2,7
June 2022	1,1	1,4
June 2023	6,8	10,8
June 2024	38,2	48,1
> June 2025	46,6	33,5
Total	**100,0**	**100,0**
Residential		
Vacant	–	–
Monthly	–	–
June 2020	100,0	100,0
June 2021	–	–
June 2022	–	–
June 2023	–	–
June 2024	–	–
> June 2025	–	–
Total	**100,0**	**100,0**

	Total GLA (ha)* %	Total gross rental %
Specialised		
Vacant	–	–
Monthly	–	–
June 2020	–	–
June 2021	–	–
June 2022	–	–
June 2023	–	–
June 2024	–	–
> June 2025	100,0	100,0
Total	**100,0**	**100,0**

Vacancy analysis profile

Vacancy based on GLA	Vacancy based on GLA (m²)* %	Vacancy based on GLA (ha)* %
Retail	0,15	–
Office	0,12	–
Industrial	0,10	–
Specialised	–	–
Residential	0,96	–
Average/total	**1,34**	**–**

Steven Herring
Chairman

Chairman and CEO's report

Richard Herring
CEO

It is our pleasure to present Heriot's integrated report together with the group's results for the year ended 30 June 2019.

Persisting, difficult trading conditions, pressure on operating costs, weakening local and global growth trends, and poor investment fundamentals are some of the economic challenges facing businesses in South Africa at present. Despite these challenges and the uncertain political landscape in the country, Heriot delivered double-digit growth for the year. We continue to assess a number of acquisition opportunities in line with Heriot's strategy of building a property portfolio of high-quality assets that offers attractive capital returns and sustainable long-term cash flows for shareholders.

Results

Heriot's portfolio is resilient and through its policy of securing long-term leases with blue-chip tenants and sector diversification, Heriot has delivered outstanding results despite the tough economic and political landscape currently prevailing in South Africa. The group generated distributable earnings of R206,5 million for the year, 10,4% ahead of the distributable earnings for the 12 months ended 31 May 2018. The above market distributable earnings growth is mainly attributable to the restructuring of secured borrowings on

Heriot owns a diverse portfolio, valued at R4,59 billion, of 43 properties across all major sectors within South Africa, including the recently completed residential property.

more favourable terms, efficient cash management and effective property management.

Heriot declared a final dividend of 41,37 cents per share which together with the interim dividend of 39,50 cents per share equates to a total dividend of 80,87 cents per share for the year ended 30 June 2019. For the 13 months ended 30 June 2018, a total dividend of 79,27 cents per share was paid. The increase in dividend of only 2,0% is a result of the payment of 13 month's distributable income as dividends in 2018 as opposed to the payment of 12 month's distributable income as dividends in 2019.

While the group's net asset value of R11,57 per share is significantly ahead of the listing price of R10,00 per share in July 2017, the net asset value remained relatively flat compared to that of R11,59 per share as at 30 June 2018. This is predominantly as a result of the fact that the national average capitalisation rates have shown only mild increases in South Africa in recent years, ranging from 0,3% to 0,5% in total, which impacted the valuations of Heriot's assets as at 30 June 2019.

Property portfolio

Heriot owns a diverse portfolio, valued at R4,59 billion, of 43 properties across all major sectors within South Africa, including the recently completed residential property, The Heriot, located in the Cape Town CBD. The redevelopment of The Heriot was substantially completed on 31 May 2019 at an all-in cost of R191,5 million and comprises of 215 residential units with 870 m² ground floor retail let to Dis-Chem on a 10 year lease.

During the reporting period, Heriot acquired a 55% interest in an industrial property for redevelopment into a 35 000 m² distribution centre but in the interim, the Cape Town based property has been leased to tenants for yard space. Subsequent to year end, Heriot acquired a 60% interest in a property in Wynberg, Cape Town, for R61,0 million. This property comprises 7 400 m² of office space, 50% of which is occupied by the National Student Financial Aid Scheme.

Heriot's overall vacancies, as at the date of this report, were an impressive 0,1% of the portfolio, reflective of Heriot's strong management of its assets.

Funding

During the reporting period, Heriot restructured several facilities in terms of which amortising facilities were converted into interest only facilities and loans were refinanced at more attractive interest rates. For the period under review, the average cost of borrowings was 8,97% and 40% of the interest rate risk had been hedged in terms of interest rate swaps and fixed interest rate loans. As at 30 June 2019, the property portfolio was 35,4% geared.

Negotiations for the refinance of a R810,0 million Nedbank facility, expiring in May 2020, have commenced and management do not anticipate any issues in the renegotiation thereof. It must be noted further that, while the group has a facility of R80,0 million in place for the redevelopment of The Heriot, costs of the development were funded from available cash resources, reducing the cash resources on hand as at the reporting date.

Market conditions

Recent market conditions in South Africa have been challenging, restricting our ability to acquire new assets that provide the quality of cash flow that Heriot prides itself on.

South Africa's economy shrunk by 3,2% in the first quarter of 2019 due mainly to weak levels of investment, rolling blackouts and a gold mining strike. The economy nevertheless averted a technical recession in the second quarter due to strong growth in mining, finance, trade and government services albeit that the current account deficit widened and the rand remained weak during this period. Even with this upturn, the medium-term growth outlook remains muted amid weak employment prospects and declining business confidence and although the inflation outlook in South Africa is favourable, it is expected that the South African Reserve Bank will probably play it safe in the coming months by keeping interest rates unchanged due to concerns on the fiscal front.

South African consumers remain under pressure with less disposable income due to increases in electricity, fuel and a weak 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.

Despite the volatile economy in which it operates, Heriot's retail earnings are somewhat protected by virtue of the fact that its cash flow 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 and 40% of its borrowings are at fixed interest rates, further ensuring the sustainability of Heriot's cash flows.

Growth strategy

Management continues to assess acquisition opportunities that comply with Heriot's primary strategic objective of acquiring value-enhancing properties within the industrial, retail and residential sectors in South Africa that will generate secure income streams and capital growth for shareholders.

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

Governance

The company is still in its infancy and while it has established solid governance structures, it remains dedicated to enhancing and improving these structures, detailed in this report, over time.

Corporate social responsibility

In line with Heriot's objective of making a positive, sustainable impact on the communities in which it 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 30 of this integrated report.

Prospects

The board remains confident that the resilient nature of Heriot's portfolio, together with the high-quality of its tenant base, will deliver growth of 6,0% to 8,0% in the dividend per share for the year ending 30 June 2020. This forecast is based on the assumption that a stable macroeconomic environment will prevail and notwithstanding

Heriot's ongoing commitment to its strategy of acquiring high-quality properties and redeveloping existing properties to add value for shareholders, this forecast has been based on the assumption that there will be no acquisitions or disposals of properties during the year, other than the acquisition of the property in Wynberg, Cape Town in August 2019.

Appreciation

We extend our thanks to Mr David Friend, who resigned from the board on 18 February 2019, for his valuable contribution to the company and group over many years. We also thank the executive team and the Heriot staff for their commitment and hard work, our fellow board members for their input during the period under review and our shareholders, tenants and all business partners for their ongoing support.

Steven Herring
Chairman

Richard Herring
CEO

24 October 2019

Corporate governance report

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

As at the date of this report, the directors are as follows:

Non-executive directors

Steven Bernard Herring *(Chairman)*

Independent non-executive directors

Selwyn Joel Blieden *(Lead independent director)*
Trevor John Cohen
Robin Lockhart-Ross
Nelson Ngale

Executive directors

Richard Lawrence Herring *(Chief executive officer)*
Janys 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 and all directors appointed by the board during the year are required to retire at the annual general meeting. In both cases, directors, if eligible, may make themselves available for re-election.

Directors' personal interests

A full list of directors' interests is maintained. At the beginning of each board meeting, directors are required to confirm that their interests, as previously disclosed, remain current. In line with best practice and section 75 of the Companies Act 71 of 2008 ("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;

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.

- 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 annual general meeting. 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 and making recommendations to shareholders regarding the appointment or re-appointment of the independent 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 pages 2 and 3 of the integrated 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 basic (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.

Investment committee

Members

Steven Bernard Herring *(Chairman)*
Janys 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)*
Janys Ann Finn

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 have 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 2019 is set out below:

		Meeting date				
		29 Aug 2018	5 Sept 2018	2 Dec 2018	15 Feb 2019	28 May 2019
Board						
Steven Herring *(Chairman)*	*Non-executive director*	–	√*	√*	√*	√*
Steve Friend *(Chairman)*	*Non-executive director*	–	√	√	√	^
Selwyn Blieden	*Lead independent director*	–	√	√	√	√
Trevor Cohen	*Independent non-executive director*	–	√	√	√	√
Janys Finn	*Chief financial officer*	–	√	√	√	√
Richard Herring	*Chief executive office*	–	√	√	√	√
Nelson Ngale	*Independent non-executive director*	–	√	√	√	√
Audit and risk committee						
Selwyn Blieden *(Chairman)*	*Independent non-executive director*	√	√	√	√	–
Trevor Cohen	*Independent non-executive director*	√	√	√	√	–
Nelson Ngale	*Independent non-executive director*	√	√	√	√	–
Janys Finn	*Chief financial officer*	#	#	#	#	–
Richard Herring	*Chief executive office*	#	#	#	#	–
Remuneration and nomination committee						
Selwyn Blieden *(Chairman)*	*Independent non-executive director*	–	√	√	–	–
Trevor Cohen	*Independent non-executive director*	–	√	√	–	–
Steven Herring	*Non-executive director*	–	√	√	–	–

√ *Member*

Attended by invitation.

^ *SD Friend resigned from the board from18 February 2019.*

* *SB Herring, a non-executive director of Heriot, assumed the role of chairperson of the board from 18 February 2019.*

While the investment committee meets regularly on an informal basis, to date, there have been no formal meetings of the Investco.

Decisions in respect of sound responsibility matters were made via teleconference and round robin resolutions.

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 the 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 managers 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 management continued

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 systems		
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 A long-term share purchase scheme that aligns the interests of staff members with the performance of the company is in place
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 is 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. The board has, however, 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	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. 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.
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	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. The board ensures that compliance with its code is integrated into the strategy and operations, conduct and the way Heriot treats its stakeholders.
Principle 3: Responsible corporate citizenship	
The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen	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. 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. Heriot is committed to becoming a B-BBEE compliant company through employment equity promotion in the workplace, procurement practices which support developing businesses and suppliers, enterprise creation and equity ownership in the group. While Heriot's third scorecard assessment for the financial year under review has shown an improvement, the company remains non-compliant.

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	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. Policies and operational plans approved by the board include financial, ethical, compliance, sustainability, performance and risk measures.
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	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. 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: • 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	The board's responsibilities, membership requirements and procedural conduct are documented in a board charter that is reviewed from time to time. The board charter allows all directors to access any company information that they might require.

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 recognise that diversity of skills, experience, background, knowledge, 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 at board level. All new appointments to the board are considered in the context of achieving diversity at board level while keeping the operational requirements of the company in mind. The board, however, 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 auditor, 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 establishes the functions, responsibilities and performance criteria of the board, the directors and the board sub-committees. While a formal annual self-evaluation is yet to be introduced for the board and its sub-committees, the board satisfied itself that it and its sub-committees operated effectively during the year under review. In addition, the chairperson regularly engages with the executive and non-executive directors, addressing any matters of concern as regards performance.

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	The CEO, Mr Richard Lawrence Herring, 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 finalising a delegation of authority ("DoA") framework which will define matters reserved for the board and those delegated to management. 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.
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	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. 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.
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	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. 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. The responsibility for key technology activities and processes is outsourced.
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 to 29 of this integrated 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.

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 year ended 30 June 2019 are set out on page 18.

The committee has satisfied itself that:

- BDO South Africa Incorporated 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 year under review;
- appropriate risk management processes are in place;
- the company has complied with the risk management policy as regards derivative transactions; and
- the company has established appropriate reporting procedures that are operating effectively.

The process of documenting policies and procedures to cover key activities of the company, including investment, asset management and capital expenditure, was finalised during the 2019 financial year. The committee has reviewed these policies and procedures and confirms that, in its opinion, the policies and procedures adopted by Heriot to date are adequate and appropriate, having regard to Heriot's size and range of activities. The documentation and review of policies and procedures remain ongoing,

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 year ended 30 June 2019 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 Tuesday, 10 December 2019.

Selwyn Blieden
Audit and risk committee chairman

24 October 2019

Report of the remuneration and nomination committee

I am pleased to present Heriot's remuneration report for 2019, 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.

Through a non-binding advisory vote at the annual general meeting held on 7 December 2018, the company's remuneration implementation report has been adopted by the company.

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 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 quartile 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

Members of 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.

The committee is identifying performance measures in respect of executive remuneration which will be formally determined during the 2020 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 issued on 17 July 2017 ("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.

As at 30 June 2019, 9 700 000 shares, including the 900 000 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 year ended 30 June 2019, which is in line with the remuneration policy, are set out in note 20 to the annual financial statements that form part of this integrated report.

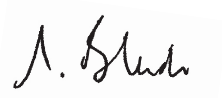
Non-executive directors' fees comprise an annual fee in recognition of their ongoing fiduciary duties and responsibilities. Directors who serve on committees are paid an additional fee for the various committees of which they are members.

In terms of a special resolution passed by all shareholders at the annual general meeting held on 7 December 2018, the company has been authorised to pay its non-executive directors a remuneration for their service as directors for a period of two years from the passing of the resolution or until its renewal, whichever is the earlier date, to a maximum amount as follows:

Position	Fees per annum R
Chairman	325 000
Non-executive director	300 000
Audit and risk committee (including the chairperson)	25 000
Social and ethics committee (including the chairperson)	25 000
Remuneration and nomination committee (including the chairperson)	25 000
Investment committee (including the chairperson)	25 000

Non-executive directors' fees for the year ended 30 June 2019 and proposed fees for 2020 are as follows:

	Actual 2019 R	Proposed 2020 R
Annual fee		
Chairman of the board	300 000	300 000
Member of the board	200 000	200 000
Fee per committee meeting		
Audit and risk committee member (including the chairperson)	25 000	25 000
Remuneration committee member (including the chairperson)	25 000	25 000
Social and ethics committee member (including the chairperson)	25 000	25 000
Investment committee member (including the chairperson)	25 000	25 000



Selwyn Blieden
Remuneration and nomination committee chairman

24 October 2019

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 annual general meeting on the matters within its mandate.

Membership

The committee comprises non-executive director, Nelson Ngale (chair) and the chief financial officer, Janys Finn. The chief executive officer, Richard Herring, attends meetings by invitation. Non-executive director Dave Friend was a member of the committee until his resignation from the board on 18 February 2019. The remuneration and nomination committee will consider and appoint his replacement at the Remco meeting to be held in December 2019.

Activities

As a committee, we focus on our social responsibility through social investment programmes that are developed to benefit the local communities surrounding our business activities.

Since the date of my last report, Heriot has donated:

- 5 076 packs of sanitary towels, or 50 760 individual sanitary towels, to eight schools in close proximity to our retail malls. 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;
- 10 000 hand sanitisers to nine schools and participated in a roadshow aimed at educating children about the importance of hygiene and how good hygiene habits can avoid the transmission of infection;
- Two large water tanks to schools with no access to water in Burgersfort; and
- 6 629 bags filled with basic stationery such as pens, pencils, rulers, erasers and pencil sharpeners to eight schools to ensure children have the opportunity to learn and grow.

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.

B-BBEE scorecard

Heriot is committed to becoming a B-BBEE-compliant company through employment equity promotion in the workplace, procurement practices which support developing businesses and suppliers, enterprise creation and equity ownership in the group. While Heriot's third scorecard assessment has shown an improvement, the company remains non-compliant.

The board acknowledges that in order to remain competitive within the industry and to ensure long-term sustainability and profitability, it is imperative that it complies with the requirements of the Broad-based Black Economic Empowerment Act and related codes of good practice (the Codes). To achieve this, the board has tasked the committee with drafting a transformation policy that aligns with the principles of the property sector codes and with the group's transformation objectives of equal opportunity employment, diversity management, recruitment and selection, rewards and benefits, leadership development and training. The committee has committed to completing the policy during the 2020 financial year.

While the focus for 2020 is to improve the B-BBEE scorecard, the committee is mindful of the need to ensure that the costs relating thereto are not disproportionate to the operations of the group and that the improvement in the scorecard is in the context of growing the group's portfolio of assets, improving the shareholder spread and increasing the diversity in the recruitment of full-time employees.

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

24 October 2019

Heriot's portfolio is resilient and through its policy of securing long term leases with blue-chip tenants and sector diversification, Heriot has delivered outstanding results despite the tough economic and political landscape currently prevailing in South Africa.

Contents

Financial statements

Directors’ responsibility and approval

The directors are required by the Companies Act to maintain adequate accounting records and are responsible for the content and integrity of the consolidated and separate 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 auditor is 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 on 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 and separate 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 2020 and, in the light of this review and the current financial position, they are satisfied that the group and company have, or have access to, adequate resources to continue in operational existence for the foreseeable future.

The external auditor was 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 annual financial statements have been examined by the group and company’s external auditor and the report is presented on pages 38 to 41.

The financial statements set out on pages 42 to 79, which have been prepared on the going concern basis, were approved by the board of directors on 24 October 2019 and were signed on its behalf by:

Steven Herring
Chairman

Richard Herring
Chief executive officer

Directors' report

The directors have pleasure in submitting their report on the financial statements of Heriot REIT Limited ("Heriot" or the "company") and the group for the year ended 30 June 2019.

Nature of business

Heriot is a property holding company listed as a REIT on the Alternative Exchange of the JSE that directly, and through its subsidiaries and its beneficial interest in Heriot Trust No. 1 and Heriot Trust No. 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.

Review of financial results and activities

The 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 financial statements and do not, in our opinion, require any further comment.

Given the nature of its business, Heriot uses distribution per share as its key performance measure as it is considered to be a more relevant performance measure than earnings or headline earnings per share.

Stated capital

The company's authorised share capital comprises 2 000 000 000 ordinary shares of no par value. There were no changes to the authorised or issued share capital during the reporting period and as 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 year ended 30 June 2019:

- Dividend number 3 – an interim dividend of 39,50000 cents per share for the six months ended 31 December 2018 was declared on 15 February 2019. The dividend totalling R101,237 million was paid to shareholders on 11 March 2019; and
- Dividend number 4 – a final dividend of 41,37156 cents per share for the six months ended 30 June 2019 was declared on 19 September 2019. The dividend totalling R106,034 million was paid to shareholders on 14 October 2019.

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).

Directors' interests in shares

The directors held the following direct and indirect interests in shares in the company:

	Beneficial holdings		Non-beneficial holdings			
As at 30 June 2019	**Direct**	**Indirect**	**Direct**	**Indirect**	**Total**	**%**
SJ Blieden	–	–	–	–	–	–
TJ Cohen	–	–	–	–	–	–
JA Finn	850 000	–	–	–	850 000	0,3
RL Herring	850 000	11 377 339	–	–	12 227 339	4,8
SB Herring	–	222 653 881	–	–	222 653 881	86,9
R Lockhart-Ross	–	–	–	–	–	–
N Ngale	–	–	–	–	–	–
	1 700 000	234 031 220	–	–	235 731 220	92,0

There has been no change to the directors' interests in shares between the year ended 30 June 2019 and the date of approval of the annual financial statements.

As at 30 June 2018	Beneficial holdings Direct	Beneficial holdings Indirect	Non-beneficial holdings Direct	Non-beneficial holdings Indirect	Total	%
SJ Blieden	–	–	–	–	–	–
TJ Cohen	–	–	–	–	–	–
JA Finn	850 000	–	–	–	850 000	0,3
SD Friend	–	5 000	–	–	5 000	–
SB Herring	–	222 653 881	–	–	222 653 881	86,9
RL Herring	850 000	11 377 339	–	–	12 227 339	4,8
N Ngale	–	–	–	–	–	–
	1 700 000	234 036 220	–	–	235 736 220	92,0

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.

Directors

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

Executive

Richard Lawrence Herring *(Chief executive officer)*

Janys Ann Finn *(Chief financial officer)*

Non-executive

Steven Bernard Herring *(Chairman)*

Selwyn Joel Blieden *(Lead independent non-executive director)*

Trevor John Cohen *(Independent)*

Stephen David Friend *(Non-executive)* – resigned 18 February 2019

Robin Lockhart-Ross *(Independent)* – appointed 18 September 2019

Nelson Ngale *(Independent)*

Stephen David Friend resigned from the board on 18 February 2019 and Steven Herring, a non-executive director of Heriot, assumed the role of chairperson of the board on that date.

Events after the reporting period

In August 2019, the group acquired a 60% interest in a property in Wynberg, Cape Town, for R61,0 million. The property comprises 7 400 m² of office space, 50% of which is occupied by the National Student Financial Aid Scheme. The acquisition was fully funded by Nedbank Limited on a 36 month interest only facility, bearing interest at prime less 0,5%.

Going concern

The directors believe that the group and company have adequate cash resources to continue for the foreseeable future and accordingly, the financial statements have been prepared on a going concern basis. The directors have satisfied themselves that the group and company are in a sound financial position with access to sufficient facilities to meet foreseeable cash requirements. Negotiations for the refinance of a Nedbank facility of R810,0 million have commenced and management are confident of refinancing this facility on favourable terms.

Further, the directors are not aware of any material changes that may adversely affect the group or company or of any material non-compliance with statutory or regulatory requirements or of any pending changes to legislation that may affect the group or company.

Auditor

During the year under review, Grant Thornton Johannesburg Partnership ("Grant Thornton") changed its network firm membership from Grant Thornton to BDO South Africa Incorporated ("BDO"). Accordingly, the audit firm of the company is now BDO. The designated audit partner, Paul Badrick, has remained unchanged.

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 Avenue Rosebank, Johannesburg 2196

Preparer

The financial statements were compiled by Janys Finn CA(SA).

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 section 88(2)(e) of the Companies Act, I certify that for the year ended 30 June 2019, 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

24 October 2019

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 (the "group" and "company") set out on pages 42 to 79, which comprise the consolidated and separate statements of financial position as at 30 June 2019, and the consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year 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 2019, and its consolidated and separate financial performance and consolidated and separate cash flows for the year 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 sections 290 and 291 of the Independent Regulatory board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. 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
Valuation of investment property (R4,586 billion) Significant judgement is required by the directors in determining the fair value of investment property. As disclosed in note 2 to the financial statements, the portfolio is valued annually by independent valuator. 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 The valuation of investment property is considered a key audit matter due to the significance of the balance, the significant judgements associated with determining the fair value and the sensitivity of the valuations to changes in assumptions.	We performed the following procedures amongst others: • Assessed the competency,capabilities and objectivity of the independent valuator. This included making an assessment of the independence and appropriateness of this valuator; • Compared the significant assumptions and judgements against historical inputs and market data where available; • With the assistance of our valuation experts, we scrutinized the calculations for accuracy, the inputs for reasonableness and recalculated the valuations; and • Reviewed the adequacy of the disclosures in the financial statements in accordance with International Financial Reporting Standards, including disclosure on significant inputs and sensitivity analyses.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Heriot REIT Limited integrated report for the year ended 30 June 2019", which includes 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 annual report, which is expected to be made available to us after that date. The 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 and will 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 consolidated and separate 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 the 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 the 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.
- 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 BDO South Africa Incorporated has been the auditor of Heriot REIT Limited for two years.

BDO South Africa Inc.

BDO South Africa Incorporated
Registered auditors

Paul Badrick
Partner
Registered Auditor
Chartered accountant (SA)

24 October 2019

Wanderers Office Park
52 Corlett Drive
Illovo, 2196

Statements of financial position

as at 30 June 2019

	Note	GROUP 2019 R'000	GROUP 2018 R'000	COMPANY 2019 R'000	COMPANY 2018 R'000
Assets					
Non-current assets		**4 654 744**	4 522 554	**2 520 620**	2 570 261
Investment property		**4 586 875**	4 451 963	**–**	–
Fair value of property portfolio	2	**4 612 554**	4 364 185	**–**	–
Straight lining of rental income	3	**(25 679)**	(19 085)	**–**	–
Property under development	4	**–**	106 863	**–**	–
Property, plant and equipment	5	**25 312**	25 373	**–**	–
Investment in subsidiaries	6	**–**	–	**2 485 490**	2 535 473
Investment in associate	7	**7 427**	10 430	**–**	–
Financial assets	8	**35 130**	34 788	**35 130**	34 788
Current assets		**103 627**	217 924	**243 238**	539 510
Trade and other receivables	9	**31 577**	24 165	**207 743**	195 315
Financial assets	8	**43 318**	77 760	**35 487**	344 125
Taxation		**1 093**	2 918	**–**	–
Cash and cash equivalents	10	**27 639**	113 081	**8**	70
Total assets		**4 758 371**	4 740 478	**2 763 858**	3 109 771
Equity and liabilities		**2 999 824**	3 005 865	**2 611 585**	2 669 494
Shareholders' interest		**2 954 949**	2 959 465	**2 611 585**	2 669 494
Stated capital	11	**2 548 624**	2 548 624	**2 557 648**	2 557 648
Reserves		**406 325**	410 841	**53 937**	111 846
Non-controlling interests	12	**44 875**	46 400	**–**	–
Liabilities		**984 154**	1 270 844	**–**	–
Interest-bearing borrowings	13	**914 734**	1 211 036	**–**	–
Derivative financial instrument	14	**6 304**	–	**–**	–
Deferred taxation	15	**63 116**	59 808	**–**	–
Current liabilities		**774 393**	463 769	**152 273**	440 278
Interest-bearing borrowings	13	**710 000**	403 886	**–**	399 746
Other financial liabilities	16	**–**	–	**152 266**	38 301
Derivative financial instrument	14	**–**	812	**–**	–
Trade and other payables	17	**64 393**	59 071	**7**	2 231
Total equity and liabilities		**4 758 371**	4 740 478	**2 763 858**	3 109 771

Statements of comprehensive income

for the year ended 30 June 2019

	Note	GROUP		COMPANY	
		For the year ended 2019 R'000	For the 13 months ended 2018 R'000	**For the year ended 2019 R'000**	For the 13 months ended 2018 R'000
Revenue		**473 159**	444 828	**–**	–
Contractual rental income		**479 753**	463 913	**–**	–
Straight lining of rental income		**(6 594)**	(19 085)	**–**	–
Operating costs		**(119 511)**	(99 376)	**–**	–
Net property income		**353 648**	345 452	**–**	–
Dividends received		**–**	–	**206 194**	206 169
Equity (loss)/accounted profits (net of taxation)	7	**(3 003)**	781	**–**	–
Other income		**7 670**	11 074	**–**	–
Administration costs		**(33 539)**	(34 481)	**(2 399)**	(1 939)
Impairment loss	18	**–**	–	**(49 983)**	–
Profit from operations	19	**324 776**	322 826	**153 812**	204 230
Finance charges	21	**(137 327)**	(152 147)	**(386)**	(5 761)
Finance income	22	**14 022**	16 776	**3 133**	3 311
Profit before fair value adjustments		**201 471**	187 455	**156 559**	201 780
Fair value adjustments	23	**17 910**	328 583	**–**	–
Profit before taxation		**219 381**	516 038	**156 559**	201 780
Taxation	24	**(5 458)**	(6 098)	**–**	–
Total comprehensive income for the year		**213 923**	509 940	**156 559**	201 780
Attributable to:					
Heriot shareholders		**209 199**	498 445		
Non-controlling shareholders		**4 724**	11 495		
		213 923	509 940		
Basic earnings per share (cents)	25	**81,91**	197,51		

Statements of changes in equity

for the year ended 30 June 2019

	GROUP			
	Share capital R'000	Reserves R'000	Non-controlling interests R'000	Total R'000
For the 13 months ended 30 June 2018				
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 as at 30 June 2018	**2 548 624**	**410 841**	**46 400**	**3 005 865**
For the year ended 30 June 2019				
Total comprehensive income for the year	**–**	**209 199**	**4 724**	**213 923**
Dividends paid	**–**	**(213 715)**	**(6 249)**	**(219 964)**
Balance as at 30 June 2019	**2 548 624**	**406 325**	**44 875**	**2 999 824**
Note	11		12	

	COMPANY		
	Share capital R'000	Reserves R'000	Total R'000
For the 13 months ended 30 June 2018			
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 interest	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 as at 30 June 2018	**2 557 648**	**111 846**	**2 669 494**
For the year ended 30 June 2019			
Total comprehensive income for the year	**–**	**156 559**	**156 559**
Dividends paid	**–**	**(214 468)**	**(214 468)**
Balance as at 30 June 2019	**2 557 648**	**53 937**	**2 611 585**
Note	11		

Statements of cash flows

for the year ended 30 June 2019

		GROUP		COMPANY	
	Note	For the year ended 2019 R'000	For the 13 months ended 2018 R'000	For the year ended 2019 R'000	For the 13 months ended 2018 R'000
Net cash generated from operating activities		**204 038**	258 031	**188 827**	5 437
Cash generated from operations	26.2	**327 618**	394 998	**186 080**	7 887
Net finance charges		**(123 305)**	(135 371)	**2 747**	(2 450)
Taxation paid	26.3	**(325)**	(1 596)	**–**	–
Net cash (utilised in)/generated from investing activities		**(77 044)**	(277 555)	**425 325**	(309 899)
Acquisition and development of investment property	2, 4	**(113 411)**	(343 727)	**–**	–
Investment in subsidiaries		**–**	–	**–**	(43 291)
Proceeds from disposal of investment property	2	**–**	22 890	**–**	–
Cash on acquisition of businesses		**–**	13 692	**–**	–
Acquisition of property, plant and equipment	5	**(797)**	(97)	**–**	–
Net loans repaid by/(advanced to) to subsidiaries	8	**–**	–	**308 638**	(315 379)
Net loans advanced by subsidiaries	16	**–**	–	**113 965**	47 301
Loan repaid by related party		**34 442**	26 717	**–**	–
Share scheme debt repaid		**2 722**	1 470	**2 722**	1 470
Dividends received from associates		**–**	1 500	**–**	–
Net cash (utilised in)/generated from financing activities		**(212 436)**	132 605	**(614 214)**	304 532
Shares issued	11	**–**	29	**–**	29
Share issue expenses	11	**–**	(5 333)	**–**	(5 309)
Acquisition of non-controlling interest		**–**	(43 291)	**–**	–
Dividends paid		**(217 120)**	(89 934)	**(214 468)**	(89 934)
Interest bearing borrowings raised	26.4	**32 044**	473 208	**–**	–
Interest bearing borrowings repaid	26.4	**(27 360)**	(202 074)	**(399 746)**	399 746
Net movement in cash and cash equivalents		**(85 442)**	113 081	**(62)**	70
Cash and cash equivalents at the beginning of the period		**113 081**	–	**70**	–
Cash and cash equivalents at the end of the period		**27 639**	113 081	**8**	70

Notes to the financial statements

for the year ended 30 June 2019

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's 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, 71 of 2008 ("the Companies Act") and the Listings Requirements of the JSE Limited.

1.3 Use of estimates and judgements

In preparing the consolidated financial statements in conformity with IFRS, management is required to make estimates and assumptions that affect the amounts represented in the consolidated financial statements and related disclosures. Use of available information based on historical experience and the application of judgement is inherent in the formation of estimates. Actual results may differ from these estimates which may be material to the consolidated financial statements. Significant judgements include:

Impairment of trade receivables and amounts due by group company

Impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. Judgement, based on past history, existing market conditions and forward-looking estimates, is used in making these assumptions.

Taxation

Due to the complexity of the tax legislation, judgement is required in determining the provision for income taxes.

Heriot is a real estate investment trust ("REIT") and tax and deferred tax are accounted for accordingly. On this basis, dividends paid to shareholders are allowable as a tax deduction and no deferred tax is provided on movements in the fair value of investment property as no capital gains tax is payable on disposal of properties. Deferred tax is however provided for capital allowances claimed in respect of investment property which will be recouped on the disposal of such assets.

Investment properties

The property portfolio is valued externally by a professional valuer on an annual basis. The valuations are determined using discounted cash flow projections based on existing lease contracts and discount rates that are dependent on a number of factors such as location, the condition of the property, lease covenants and current market conditions.

Derivative financial instruments

The valuation of derivative financial instruments is determined using discounted cash flow projections, based on estimates of future cash flows, together with the relevant swap agreements.

The estimates and underlying assumptions are reviewed on an ongoing basis.

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 in the separate financial statements of the company 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 group has significant influence.

Investments in associates are accounted for at cost less accumulated impairment losses in the company's separate financial statements. At group level these investments are initially measured at cost subsequently using the equity method. The group's investment in associates include goodwill identified on acquisition (net of any accumulated impairment loss).

The consolidated financial statements include the group's share of the income and expenses and equity movements of equity-accounted investees, after adjustments to align the accounting policies with those of the group, from the date that significant influence commences until the date that significant influence ceases. When the group's share of losses equals or exceeds its interest in an equity-accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the group has an obligation or has made payments on behalf of the investee.

Unrealised gains on transactions between the group and associate 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 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.

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 on the fair value model.

Tenant installation and lease commission costs are capitalised and amortised over the period of the lease. The carrying value 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 group facilities, the weighted average cost of borrowings.

1.6 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 deprecation 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.

1.7 Financial instruments

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

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 method less accumulated impairment losses
Trade and other payables	Stated at amortised cost using the effective interest method
Related party loans payable/ receivable and loans to participants of the employee share scheme	Stated at amortised cost using the effective interest method
Financial liabilities	Non-derivative financial liabilities not at fair value through profit and loss are recognised at amortised cost using the effective interest 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.

Impairment

Expected credit losses associated with debt instruments carried at amortised cost and fair value through other comprehensive income are assessed on a forward-looking basis.

For trade receivables, the group applies the simplified approach permitted by IFRS 9 which requires expected lifetime losses to be recognised from initial recognition of the receivables. Defaulting trade receivables are those receivables for which there have been no collections for more than 90 days. Trade receivables are derecognised once all avenues of recovery have been exhausted. Receivables are derecognised when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. Any recoveries made are recognised in profit or loss.

1.8 Property revenue

Revenue comprises gross rental revenue including all recoveries from tenants, excluding value added taxation. Rental revenue from investment property is recognised in the statements 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.

1.9 Property operating expenses

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

1.10 Financing costs

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

1.11 Finance income

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

1.12 Income tax

As the group is a REIT, no provision has been provided 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 which will be recouped on the disposal of such assets.

1.13 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
- Other.

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.

1.14 Impairment of non-financial assets

At each end of the reporting period, an assessment is made as to whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount for the individual asset is estimated. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value-in-use. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount by way of an impairment loss. An impairment loss on assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

At each reporting date, an assessment is made as to whether an impairment loss recognised in prior periods may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss may not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in profit or loss.

1.15 Standards and interpretations effective and adopted in the current period

In the current year, the company has adopted the following standards and interpretations that are relevant to its operations:

IFRS 9: *Financial Instruments*

IFRS 9 replaces IAS 39: *Financial Instruments: Recognition and Measurement*. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

The effective date of the standard is for years beginning on or after 1 January 2018.

When adopting IFRS 9, the group has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of IFRS 9 in relation to the classification, measurement and impairment are recognised in retained earnings. The adoption of the new standard, specifically the new "expected credit loss" model, did not have a material impact on the group's consolidated financial statements due to collateral on receivables and strong risk management processes in place.

IFRS 15: *Revenue from Contracts with Customers*

IFRS 15, issued in May 2014, was introduced to achieve greater consistency in the recognition and presentation of revenue in respect of contracts with customers. Its core principle is that revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services.

The effective date of the standard is for years beginning on or after 1 January 2018.

The group has adopted the new standard for the first time in the 2019 annual financial statements. The amendment did not have a material impact on the group's consolidated financial statements.

1.16 Standards and interpretations not yet effective

The company has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the company's accounting periods beginning on or after 1 July 2019 or later periods:

Standard/ Interpretation	Effective date – Years beginning on or after	Expected impact
IFRS 16: *Leases*	1 January 2019	Unlikely to have a material impact

	GROUP 2019 R'000	GROUP 2018 R'000
2. Investment property		
Net carrying value		
Cost	**4 262 616**	4 037 648
Fair value surplus	**349 938**	326 537
	4 612 554	4 364 185
Movement for the period		
Investment properties at the beginning of the period	**4 364 185**	–
On acquisition of subsidiaries (note 25)	**–**	3 789 584
Acquisition and development of investment property	**32 322**	270 414
Transfer from property under development	**190 773**	–
Disposals	**–**	(22 800)
Change in fair value	**29 995**	345 675
Tenant installations	**1 873**	397
– Capitalised	**2 307**	450
– Amortised	**(434)**	(53)
Straight lining of rental income	**(6 594)**	(19 085)
Balance at the end of the period	**4 612 554**	4 364 185
Reconciliation to independent valuation		
Investment property at valuation	**4 612 554**	4 364 185
Straight lining of rental income	**(25 679)**	(19 085)
	4 586 875	4 345 100

The properties were valued by Quadrant Properties, a registered valuer in terms of Section 19 of the Property Valuers Professional Act (Act No 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.

	GROUP 2019 %	GROUP 2018 %
The average capitalisation rates applied per sector were as follows:		
Retail	**8,58**	8,02
Industrial	**8,51**	8,63
Office	**8,95**	8,70
Residential	**9,50**	0,00

First mortgaged bonds have been registered over investment property with a value of R4,240 billion as security for interest bearing borrowings of R1,625 billion.

	GROUP	
	2019 R'000	2018 R'000

3. Straight lining of rental income

	2019 R'000	2018 R'000
Balance at the beginning of the period	**(19 085)**	–
Arising during the period	**(6 594)**	(19 085)
Balance at the end of the period	**(25 679)**	(19 085)

4. Property under development

	2019 R'000	2018 R'000
Balance at the beginning of the period	**106 863**	–
On acquisition of subsidiaries	**–**	34 000
Development costs	**78 782**	76 128
Capitalised borrowing costs	**5 128**	(3 265)
Transfer to investment property	**(190 773)**	–
	–	106 863

The property comprises a commercial property located at 2 Adderley Street, Cape Town, acquired for redevelopment into 215 residential units with 870 m^2 ground floor retail. The property was substantially completed on 31 May 2019 and was transferred to investment property on that date.

	GROUP	
	2019 R'000	2018 R'000

5. Property, plant and equipment

	2019 R'000	2018 R'000
Property	**23 691**	24 185
Cost	**24 721**	24 721
Accumulated depreciation	**(1 030)**	(536)
Computer equipment	**52**	58
Cost	**140**	105
Accumulated depreciation	**(88)**	(47)
Motor vehicles	**381**	632
Cost	**935**	935
Accumulated depreciation	**(554)**	(303)
Furniture, fittings and equipment	**1 188**	498
Cost	**1 338**	576
Accumulated depreciation	**(150)**	(78)
	25 312	25 373

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

	GROUP	
	2019 R'000	2018 R'000
5. Property, plant and equipment continued		
5.1 Movement for the period		
Balance at beginning of the period	**25 373**	–
On acquisition from subsidiaries	**–**	26 240
Owner occupied property	**–**	24 721
Computers	**–**	55
Furniture, fittings and equipment	**–**	529
Motor vehicles	**–**	935
Additions	**797**	97
Computers	**35**	50
Furniture, fittings and equipment	**762**	47
Depreciation for the period	**(858)**	(964)
Owner occupied property	**(494)**	(536)
Computers	**(41)**	(47)
Furniture, fittings and equipment	**(72)**	(78)
Motor vehicles	**(251)**	(303)
	25 312	25 373

	Holding %	COMPANY Carrying amount 2019 R'000	Carrying amount 2018 R'000

6. Investment in subsidiaries

	Holding %	Carrying amount 2019 R'000	Carrying amount 2018 R'000
Bait Away Trading Proprietary Limited	100	**30 035**	46 787
Beneficial interest in Heriot Trust No. 1	100	**99 659**	99 659
Beneficial interest in Heriot Trust No. 3	100	**71 625**	71 625
Chasie Investments Proprietary Limited	100	**49 085**	49 085
Crosize Proprietary Limited	100	**5 320**	5 320
Fin Properties 107 Proprietary Limited	100	**95 323**	122 224
Heriot Properties International Proprietary Limited	90	**158 135**	158 135
Heriot Properties Proprietary Limited	100	**1 515 451**	1 515 451
Heriot Properties West Proprietary Limited	100	**102 925**	102 925
Moditouch Proprietary Limited	50	**17 904**	17 904
Phokeng Mall Proprietary Limited	100	**133 134**	133 134
Terrace Drive Properties 34 Proprietary Limited	100	**200 736**	200 736
Tiger Stripes Investments 31 Proprietary Limited	100	**6 158**	12 488
		2 485 490	2 535 473
Movement for the period			
Balance at the beginning of the period		**2 535 473**	–
Acquisition of subsidiaries		**–**	2 485 596
Acquisition of minority interests		**–**	49 877
Impairment losses		**(49 983)**	–
		2 485 490	2 535 473

As at the reporting date, the carrying value of each investment was assessed for impairment in terms of IAS 36 and in instances where the investment was considered to be impaired, the investment was written down to its estimated recoverable amount by way of an impairment loss.

	GROUP	
	2019 R'000	2018 R'000
7. Investment in associate		
49,5% interest in Fixtrade 605 Proprietary Limited	**7 427**	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.		
Movement for the period		
Balance at the beginning of the period	**10 430**	–
On acquisition of subsidiaries	**–**	11 149
Equity accounted results per the statement of comprehensive income	**(3 003)**	(719)
Share of (loss)/profit	**(3 003)**	781
Dividends received	**–**	(1 500)
Balance at end of the period	**7 427**	10 430

	GROUP		COMPANY	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
8. Financial assets				
Loans to participants of the employee share scheme (note 8.1)	**35 130**	34 788	**35 130**	34 788
Loan to related party (note 8.2)	**43 318**	77 760	**–**	–
Loan to subsidiaries (note 8.3)	**–**	–	**35 487**	344 125
	78 448	112 548	**70 617**	378 913
Less: short term portion	**(43 318)**	(77 760)	**(35 487)**	(344 125)
	35 130	34 788	**35 130**	34 788

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
8. Financial assets continued				
Movement for the year:				
Loans to participants of the employee share scheme				
Balance at the beginning of the period	**34 788**	–	**34 788**	–
Loans advanced during the period	**–**	42 000	**–**	42 000
Loans repaid during the period	**(2 722)**	(10 470)	**(2 722)**	(10 470)
Interest received	**3 064**	3 258	**3 064**	3 258
Balance at the end of the period	**35 130**	34 788	**35 130**	34 788
Loan to related party				
Balance at the beginning of the period	**77 760**	–	**–**	–
Acquired on acquisition of businesses	**–**	104 477	**–**	–
Repaid during the period	**(34 442)**	(26 717)	**–**	–
Balance at the end of the period	**43 318**	77 760		
Loan to subsidiaries				
Balance at the beginning of the period	–	–	**344 125**	–
Acquired on acquisition of subsidiaries	–	–	**–**	28 746
Advanced during the period	–	–	**2 301**	315 379
Repaid during the period	–	–	**(310 939)**	–
Balance at the end of the period	–	–	**35 487**	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 8,97%;
- 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 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; and
- The employees to whom the shares have been issued remain liable for the relevant outstanding scheme debt, irrespective of the value of the underlying shares i.e. the employee is unconditionally bound to repay the loan, notwithstanding any decrease in the underlying value of the shares.

8. Financial assets continued

8.2 The loan to the related party is unsecured, bears interest at the group's average cost of borrowings, currently 8,97% per annum and is repayable on demand.

8.3 The loans to the subsidiaries bear interest at variable rates and are repayable within 13 months of a demand for repayment by the company. The loan to Crosize is interest free and repayable on demand.

8.4 The expected credit loss impairment model has been applied to these financial assets and based on the assessment made as at the reporting date, no impairment of these assets is required.

	GROUP		COMPANY	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
9. Trade and other receivables				
Trade receivables	**2 182**	1 490	**–**	–
Impairments	**(600)**	(600)	**–**	–
	1 582	890	**–**	–
Municipal deposits	**7 106**	7 074	**–**	–
Prepayments	**5 266**	3 735	**17**	15
Value added taxation	**232**	3 395	**–**	1
Management fees*	**7 675**	6 960	**–**	–
Other receivables	**9 716**	2 111	**–**	–
Dividends from subsidiaries	**–**	–	**207 726**	195 299
	31 577	24 165	**207 743**	195 315

* *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.*

In order to mitigate the risk of financial loss from defaults, the group only deals with reputable tenants with consistent payment histories. Sufficient collateral or guarantees are also obtained when appropriate. Each tenant is analysed individually for creditworthiness, based on information submitted by the tenants as well as external bureau data, before terms and conditions are offered. Tenant credit limits are in place and are reviewed and approved by management. The exposure to credit risk and the creditworthiness of tenants is continuously monitored.

There have been no significant changes in the credit risk management policies and processes since the prior reporting period. The average credit period on trade receivables is 30 days (2018: 30 days). Interest is charged on outstanding trade receivables.

A loss allowance is recognised for all trade receivables, in accordance with IFRS 9: *Financial Instruments* and is monitored at the end of each reporting period. In addition to the loss allowance, trade receivables are written off when there is no reasonable expectation of recovery.

9. Trade and other receivables continued

The loss allowance for trade receivables is measured by applying the simplified approach which is prescribed by IFRS 9. In accordance with this approach, the loss allowance on trade receivables is determined as the lifetime expected credit losses on trade receivables. These lifetime expected credit losses are estimated using a provision matrix which is presented below. The provision matrix has been developed by making use of past default experience of debtors but also incorporates forward looking information and general economic conditions of the industry as at the reporting date.

The estimation techniques explained have been applied for the first time in the current financial period as a result of the adoption of IFRS 9. Trade receivables were previously impaired only when there was objective evidence that the asset was impaired. The impairment was calculated as the difference between the carrying amount and the present value of the expected future cash flows.

The historical credit loss experience does not show significantly different loss patterns for different tenant segments. The provision for credit losses is therefore based on past due status without disaggregating into further risk profiles. The loss allowance provision is determined as follows:

	GROUP			
	Estimated gross carrying value at default 2019	Estimated gross carrying value at default 2018	**Loss allowance (lifetime expected credit loss) 2019**	Loss allowance (lifetime expected credit loss) 2018
Not past due: nil (2018: nil)	**1 106**	480	**–**	–
30 days past due: 0% (2018: nil)	**183**	168	**–**	–
60 days past due: 0% (2018: nil)	**167**	33	**–**	–
More than 90 days: 83% (2018: 74%)	**726**	809	**600**	600
	2 182	1 490	**600**	600

Mpact Limited and Shoprite Checkers are the group's only major customers with revenue of R57,8 million and R45,3 million respectively, equating to 15,05% and 11,79% of total revenue for the period under review (2018: 18,7% and 12,4% respectively).

	GROUP		COMPANY	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
10. Cash and cash equivalents				
For purposes of the cash flow statement, cash and cash equivalents comprise:				
Bank balances	**27 639**	113 081	**8**	70

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

	GROUP		COMPANY	
	2019 R'000	2018 R'000	**2019 R'000**	2018 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**	2 557 624	**2 557 648**	2 557 648
Less: 900 000 treasury shares	**(9 000)**	(9 000)	**–**	–
	2 548 624	2 548 624	**2 557 648**	2 557 648
Reconciliation of issued stated capital				
In issue at the beginning of the period	**2 548 624**	–	**2 557 648**	–
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	2 548 624	**2 557 648**	2 557 648

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

The unissued shares are under the control of the directors. This authority remains in force until the next annual general meeting of the company.

	Effective voting rights of NCI	GROUP 2019 R'000	2018 R'000
12. Non-controlling interests ("NCI")			
Moditouch Proprietary Limited	50%	**22 312**	23 893
Heriot Properties International Proprietary Limited	10%	**21 794**	22 507
Hagley 3865 Proprietary Limited	45%	**769**	–
		44 875	46 400
Movement for the period			
Balance at the beginning of the period		**46 400**	–
On acquisition of businesses		**–**	87 112
Minority interests acquired		**–**	(52 207)
Dividends paid		**(6 249)**	–
Share of profits for the period		**4 724**	11 495
		44 875	46 400

Moditouch Proprietary Limited

With effect from 5 June 2017, the group acquired a 50% equity interest in Moditouch Proprietary Limited. 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 2017, the group acquired a 90% equity interest in Heriot Properties International Proprietary Limited ("HPI"). Heriot controls HPI by virtue of the voting rights held.

Hagley 3865 Proprietary Limited

With effect from 4 October 2018, the group acquired a 55% equity interest in Hagley 3865 Proprietary Limited ("Hagley"). Heriot controls Hagley by virtue of the voting rights held.

	GROUP		COMPANY	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
13. Interest-bearing liabilities				
Nedbank Limited	**740 851**	1 267 167	**–**	399 746
Interest only facility bearing interest at 1,5% below the prime bank overdraft rate, secured by first mortgage bonds over investment property valued at R2,013 billion and repayable in May 2020. Discussions for the refinance of the facility have commenced. The directors do not expect any issues in rolling over and renegotiating these facilities based on discussions held to date.	**710 000**	737 360	**–**	–
The interest only facility bears interest at the prime bank overdraft rate, is secured by a first mortgage bond over investment property valued at R32,5 million and is repayable on 31 March 2022.	**30 851**	–	**–**	–
The loan was refinanced by Standard Bank Limited on 11 July 2018.	**–**	399 746	**–**	399 746
The loan was refinanced by Standard Bank Limited on 30 April 2019.	**–**	70 062	**–**	–
The loan was refinanced by Standard Bank Limited on 11 July 2019.	**–**	59 999	**–**	–
Standard Bank	**536 128**	–	**–**	–
The facility bears interest at a rate of 3 month JIBAR plus 1,73%, is repayable on 14 January 2022 and is secured by first covering mortgage bonds over investment property valued at R855,8 million.	**400 000**	–	**–**	–
The development facility bears interest at a rate of 3 month JIBAR plus 1,67%, is repayable on 11 December 2021 and is secured by a first covering mortgage bond over investment property valued at R185,0 million. Interest on the facility is capitalised to the loan until its conversion from a development facility to a term loan, expected to take place in October 2019.	**65 128**	–	**–**	–
The interest only facility bears interest at a rate of 3 month JIBAR plus 1,80%, is repayable on 29 April 2023 and is secured by a first covering mortgage bond over investment property valued at R117,0 million.	**71 000**	–	**–**	–

	GROUP		COMPANY	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
13. Interest-bearing liabilities continued				
Rand Merchant Bank Limited				
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 R688,0 million and is repayable on 31 October 2020.	**132 185**	132 185	**–**	–
Sanlam Capital Markets Proprietary Limited				
The interest only facility bears interest at a fixed rate of 8,95%, is secured by a first mortgage bond over investment property valued at R348,5 million and is repayable on 1 July 2020.	**215 570**	215 570	**–**	–
	1 624 734	1 614 922	**–**	399 746
Less: short term portion of interest bearing borrowings	**(710 000)**	(403 886)	**–**	(399 746)
	914 734	1 211 036	**–**	–

As at the reporting date, the group had unutilised facilities of R187,7 million.

	GROUP	
	2019 R'000	2018 R'000
14. Derivative financial instrument		
Interest rate swap	**6 304**	812
Less: short term portion	**–**	(812)
	6 304	–
Nominal value (R'000)	**300 000**	300 000
Maturity	**27 November 2021**	10 September 2018
Fixed interest rate (%)	**7,68**	9,62
The derivative instrument was valued by Standard Bank Limited by discounting the future cash flows using the JIBAR swap curve (2018: valued by Nedbank Limited using the average prime linked curve).		
Movement for the period		
Balance at the beginning of the period	**812**	–
On acquisition of businesses	**–**	2 805
Movement for the period	**5 491**	(1 993)
	6 304	812

15. Deferred taxation

	GROUP 2019 R'000	GROUP 2018 R'000
Capital allowances	**76 342**	76 034
Prepayments	**(13 226)**	(16 226)
	63 116	59 808
Movement for the period		
Balance at the beginning of the period	**59 808**	–
On acquisition of businesses (note 25)	**–**	54 743
Per statement of comprehensive income	**3 308**	5 065
– Arising on capital allowances in current period	**308**	979
– Prepayments	**751**	–
– Adjustment in respect of previous period	**2 249**	4 086
	63 116	59 808

With effect from 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.

16. Other financial liabilities

	COMPANY 2019 R'000	COMPANY 2018 R'000
Loans from subsidiaries		
Heriot Properties Proprietary Limited	**151 636**	37 671
Tembisa Mall Proprietary Limited	**630**	630
	152 266	38 301
Movement for the period		
Balance at the beginning of the period	**38 301**	–
Advanced during the period	**622 336**	38 301
Repaid during the period	**(508 371)**	–
Balance at the end of the period	**152 266**	38 301

The loans are unsecured, interest free and repayable on demand.

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
17. Trade and other payables				
Rent received in advance	**13 384**	5 537	**–**	–
Accrued interest	**8 521**	10 282	**–**	–
Accrued expenses	**22 477**	22 014	**7**	2 231
Value added taxation	**5 354**	4 560	**–**	–
Tenant deposits	**7 185**	5 318	**–**	–
Other payables	**7 472**	11 360	**–**	–
	64 393	59 071	**7**	2 231
18. Impairment loss				
Impairment of investment in subsidiaries (refer note 6)			**49 983**	–

	GROUP	
	2019 R'000	2018 R'000
19. Profit from operations		
Net operating profit includes the following items:		
Charges		
Audit fees	**511**	851
Current fee	**511**	823
Underprovision for previous period	**–**	28
Amortisation and depreciation	**1 293**	1 017
Management fees	**556**	526
Staff costs	**26 420**	27 186

20. Directors' emoluments

	GROUP 2019 R'000	GROUP 2018 R'000
Fees paid to non-executive directors		
SB Herring *(Chairman)**	425	150
SD Friend *(Chairman)**	225	264
SJ Blieden	350	200
TJ Cohen	350	200
N Ngale	300	200
	1 650	1 014

* *SD Friend resigned as a director on 18 February 2019. SB Herring was appointed as chairman of the board on the same date.*

	GROUP 2019 R'000	GROUP 2018 R'000
Fees paid to executive directors		
SB Herring – CEO^	–	400
Salaries and allowances	–	400
Bonus	–	–
RL Herring – CEO^	4 208	3 361
Salaries and allowances	3 481	2 634
Bonus	727	727
JA Finn – CFO	4 610	3 946
Salaries and allowances	3 383	3 279
Bonus	1 227	667
	8 818	7 707

^ *SB Herring resigned as CEO on 18 August 2017. RL Herring was appointed on the same date.*

	GROUP		COMPANY	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
21. Finance charges				
Secured borrowings	**140 351**	154 896	**386**	5 761
Other	**2 104**	516	**–**	–
Capitalised	**(5 128)**	(3 265)	**–**	–
	137 327	152 147	**386**	5 761
22. Finance income				
Interest received – bank	**4 100**	6 754	**–**	52
Related party loan	**6 456**	6 443	**–**	–
Other	**3 466**	3 579	**3 133**	3 259
	14 022	16 776	**3 133**	3 311
23. Fair value adjustments				
Unrealised gain on revaluation of investment property	**23 401**	326 590	**–**	–
Unrealised gain on revaluation of interest rate swap	**(5 491)**	1 993	**–**	–
	17 910	328 583	**–**	–

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
24. Taxation				
Normal taxation	**2 150**	1 033		
Current	**997**	1 000		
Underprovision in respect of prior period	**1 153**	33		
Deferred	**3 308**	5 065		
Current	**1 059**	979		
Underprovision in respect of prior period	**2 249**	4 086		
	5 458	6 098		
Reconciliation of taxation charge				
Profit before taxation	**219 381**	516 038	**156 559**	201 780
Tax at the applicable rate of 28%	**61 427**	144 491	**43 837**	56 498
Taxation effect of:				
Qualifying distributions	**(57 832)**	(56 822)	**(57 832)**	(56 822)
Impairment loss	**–**	–	**13 995**	–
Fair value adjustments	**(5 015)**	(92 003)	**–**	–
Straight line rental income	**1 846**	5 344	**–**	–
Equity accounted profits (net of taxation)	**841**	(219)	**–**	–
Adjustments to prior period	**3 402**	4 119	**–**	–
Tax rate differential – Namibian company	**135**	348	**–**	–
Other	**(103)**	(139)	**–**	324
Non-deductible expenditure	**43**	–	**–**	–
Timing differences for which no deferred taxation was raised	**406**	–	**–**	–
Capital allowance	**308**	979	**–**	–
	5 458	6 098	**–**	–

	GROUP	
	2019 R'000	2018 R'000

25. Earnings and headline earnings

Reconciliation of basic earnings to headline earnings		
Profit attributable to Heriot shareholders	**209 199**	498 445
Change in fair value of investment properties attributable to Heriot shareholders	**(21 547)**	(318 546)
Change in fair value of investment properties	**(23 401)**	(326 590)
Attributable to non-controlling shareholders	**1 854**	8 044
Headline earnings attributable to Heriot shareholders	**187 652**	179 899
Actual number of shares in issue*	**255 395 858**	255 395 858
Weighted average number of shares in issue	**255 395 858**	252 363 996
There are no dilutive instruments in issue.		
Basic earnings per share (cents)	**81,91**	197,51
Headline earnings per share (cents)	**73,47**	71,29

* *Excludes 900 000 treasury shares.*

26. Note to the cash flow statement

26.1 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	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
26.2 Cash generated from operations				
Profit before taxation	**219 381**	516 038	**156 559**	201 780
Adjusted for				
Non-cash items	**(10 084)**	(312 610)	**46 919**	(3 258)
Fair value adjustments	**(17 910)**	(328 583)	**–**	–
Impairment losses	**–**	–	**49 983**	–
Profit on disposal of investment property	**–**	(90)	**–**	–
Straight lining of rental income	**6 594**	19 085	**–**	–
Equity accounted profits (net of taxation)	**3 003**	(781)	**–**	–
Interest received on loans to participants of the employee share scheme	**(3 064)**	(3 258)	**(3 064)**	(3 258)
Depreciation	**1 293**	1 017	**–**	–
Finance charges	**137 327**	152 147	**386**	5 761
Finance income	**(14 022)**	(16 776)	**(3 133)**	(3 311)
Operating profit before working capital changes	**322 602**	338 799	**200 731**	200 972
Working capital changes	**(4 934)**	56 199	**(14 651)**	(193 085)
Trade and other receivables	**(7 412)**	46 436	**(12 427)**	(195 316)
Dividend payable – non-cash	**(2 844)**	–	**–**	–
Trade and other payables	**5 322**	9 763	**(2 224)**	2 231
Cash generated from operations	**327 668**	394 998	**186 080**	7 887
26.3 Taxation paid				
Taxation in advance at the beginning of the period	**2 918**	–		
Arising on acquisition of subsidiaries (note 25)	**–**	2 355		
Taxation for the period	**(2 150)**	(1 033)		
Tax in advance at the end of the period	**(1 093)**	(2 918)		
Taxation paid during the period	**(325)**	(1 596)		

26. Note to the cash flow statement
continued

26.4 Reconciliation of liabilities arising from financial activities

	GROUP		
	Long-term borrowings	Short-term borrowings	Total
Balance as at 1 June 2017	–	–	–
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	16 683	(16 683)	–
Balance as at 30 June 2018	**1 211 036**	**403 886**	**1 614 922**
Repayment	**(27 360)**	**–**	**(27 360)**
Proceeds	**32 044**	**–**	**32 044**
Capitalised interest	**5 128**	**–**	**5 128**
Reclassification	**(306 114)**	**306 114**	**–**
Balance as at 30 June 2019	**914 734**	**710 000**	**1 624 734**

	COMPANY		
	Long-term borrowings	Short-term borrowings	Total
Balance as at 1 June 2017	–	–	–
Cash flows			
Proceeds	–	399 746	399 746
Balance as at 30 June 2018	**–**	**399 746**	**399 746**
Repayment		**(399 746)**	
Balance as at 30 June 2019	**–**	**–**	**399 746**

	GROUP	
	2019 R'000	2018 R'000
27. 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:		
– Due within one year	**10 625**	12 362
– Due two to five years	**–**	–
	10 625	12 362
28. 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		
– Receivable within one year	**403 583**	371 360
– Receivable two to five years	**976 551**	924 423
– Receivable beyond five years	**458 910**	378 738
	1 839 044	1 674 521

29. 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:

	COMPANY	
	2019 R'000	2018 R'000
Subsidiaries		
Heriot Trust No. 3		
Interest received	**–**	–
Amount owing at reporting date	**200**	200
Terrace Drive Properties 34 Proprietary Limited		
Interest received	**207**	5 951
Amount owing at reporting date	**2 094**	97 880
Heriot Trust No. 1		
Interest received	**37**	1 069
Amount owing at reporting date	**376**	17 274
HP 10 Investments Proprietary Limited		
Interest received	**424**	11 437
Amount owing at reporting date	**4 284**	200 237
Heriot Properties Proprietary Limited		
Interest received	**–**	–
Amount owing at reporting date	**(151 636)**	–
Tembisa Mall Proprietary Limited		
Interest received	**–**	–
Amount owing at reporting date	**(630)**	–
Crosize Proprietary Limited		
Interest received	**–**	–
Amount owing at reporting date	**28 533**	28 533

Key management

Compensation of key management is by way of salary and bonus only, details of which are disclosed in note 20.

	GROUP	
	2019 R'000	2018 R'000
29. Related parties and related party transactions continued		
Other		
Steven Herring Consulting CC		
Relationship: Common director		
Interest received	**6 456**	6 443
Amount owing as at reporting date	**43 318**	77 760

All transactions above were made on terms equivalent to those that prevail in arm's-length transactions. Refer notes 8 and 15 related party balances.

30. 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.

30.1 Liquidity risk

Liquidity risk is the risk that the group 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
As at 30 June 2019				
Interest-bearing borrowings	710 000	914 734	–	1 624 734
Derivative instrument	–	6 304	–	6 304
Trade and other payables	64 393	–	–	64 393
	774 393	921 038	–	1 695 431

	Less than one year R'000	One to five years R'000	More than five years R'000	Total R'000

30. Financial risk management continued

30.1 Liquidity risk continued

	Less than one year R'000	One to five years R'000	More than five years R'000	Total R'000
As at 30 June 2018				
Derivative financial instrument	403 886	1 421 560	77 729	1 903 175
Derivative instrument	812	–	–	812
Trade and other payables	59 071	–	–	59 071
	463 769	1 421 560	77 729	1 963 058

30.2 Categories of financial instruments

	GROUP		
	At amortised cost R'000	At fair value through profit or loss R'000	Total R'000
As at 30 June 2019			
Financial assets			
Financial assets – non-current	35 130	–	35 130
Trade and other receivables	26 079	–	26 079
Financial assets – current	43 318	–	43 318
Cash and cash equivalents	27 639	–	27 639
	132 166	–	132 166
Financial liabilities			
Interest-bearing borrowings	1 624 734	–	1 624 734
Interest accrual on interest-bearing borrowings	274 089	–	274 089
Derivative instruments	–	6 304	6 304
Trade and other payables	59 039	–	59 039
	1 957 862	6 304	1 964 166

	GROUP		
	Loans and receivables R'000	At fair value through profit or loss R'000	Total R'000
30. Financial risk management continued			
30.2 Categories of financial instruments continued			
As at 30 June 2018			
Financial assets			
Financial assets – non-current	34 788	–	34 788
Trade and other receivables	17 035	–	17 035
Financial assets – current	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
	1 957 687	812	1 958 499

30.3 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. As at the reporting date, 40% of borrowings had been fixed.

An increase of 1% in the interest rate for the year would have increased the interest expense by R11,1 million (2018: R9,9 million) in respect of the floating portion of the debt.

30. Financial risk management continued

30.4 Credit risk management

Credit risk is the risk of financial loss to the group if a tenant or counterparty to a financial instrument fails to meet its contractual obligations.

Trade receivables, loans receivable and short-term cash investments are subject to credit risk. The maximum exposure to credit risk is presented in the table below:

	Note	GROUP Gross carrying amount R'000	GROUP Credit loss allowance R'000	GROUP Amortised cost/fair value R'000
As at 30 June 2019				
Financial assets	8	**78 448**	**–**	**78 448**
Trade and other receivables	9	**26 679**	**(600)**	**26 079**
Cash and cash equivalents	10	**27 639**	**–**	**27 639**
		132 766	**(600)**	**132 166**
As at 30 June 2018				
Financial assets	8	112 548	–	112 548
Trade and other receivables	9	17 635	(600)	17 035
Cash and cash equivalents	10	113 081	–	113 081
		243 264	(600)	242 664

	Note	COMPANY Gross carrying amount R'000	COMPANY Credit loss allowance R'000	COMPANY Amortised cost/fair value R'000
As at 30 June 2019				
Financial assets	8	**70 617**	**–**	**70 617**
Trade and other receivables	9	**207 726**	**–**	**207 726**
Cash and cash equivalents	10	**8**	**–**	**8**
		278 351	**–**	**278 351**
As at 30 June 2018				
Financial assets	8	378 913	–	378 913
Trade and other receivables	9	195 299	–	195 299
Cash and cash equivalents	10	70	–	70
		574 282	–	574 282

30. Financial risk management continued

30.5 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. IFRS13 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 asset 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).

	GROUP			
	Fair value R'000	Level 1 R'000	Level 2 R'000	Level 3 R'000
As at 30 June 2019				
Assets				
Investment properties	**4 586 875**	**–**	**–**	**4 586 875**
Liabilities				
Derivative instrument	**6 304**	**–**	**6 304**	**–**
	6 304	**–**	**6 304**	**–**
As at 30 June 2018				
Assets				
Investment properties	4 451 963	–	–	4 451 963
Liabilities				
Derivative instrument	812	–	–	–
	812	–	–	–

31. 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	
	2019 R'000	2018 R'000
Property assets	**4 586 875**	4 451 963
Interest-bearing borrowings	**1 624 736**	1 614 922
Loan to value (%)	**35,4**	36,2

32. Events after the balance sheet date

In August 2019, the group acquired a 60% interest in a property in Wynberg, Cape Town, for R61,0 million. The property comprises 7,400 m² of office space, 50% of which is occupied by the National Student Financial Aid Scheme. The acquisition was fully funded by Nedbank Limited on a 36 month interest only facility, bearing interest at prime less 0,5%.

33. Comparative figures

The comparative figures are for the 13 month period ended 30 June 2018.

34. Prior period errors

Basic and diluted earnings per share was incorrectly calculated in the comparative figures. For the 13 months ended 30 June 2018, the calculation was based on the actual number of shares in issue as opposed to the weighted average number of shares in issue for the period. The earnings per share has now been correctly calculated to comply with IAS 33: *Earnings per Share*.

The correction of the errors results in adjustments as follows:

	Basic and diluted earnings per share cents	Basic and diluted headline earnings per share cents
Reported	195,17	70,44
Restated	197,51	71,29
Difference	0,34	0,85

35. Segmental analysis

	GROUP						
	GLA m²	Investment property R'000	Revenue R'000	Straight lining of rental income R'000	Property expenses R'000	Net income R'000	Change in fair value R'000
30 June 2019							
Retail	137 345	2 343 500	252 346	2 809	(69 185)	185 970	33 657
Industrial	328 149	1 638 675	184 496	(12 086)	(36 148)	136 262	(5 869)
Office	18 495	321 050	34 980	2 812	(11 817)	25 975	(3 918)
Specialised*	–	98 650	7 001	(129)	(401)	6 471	5 380
Residential	9 825	185 000	930	–	(1 466)	(536)	(5 849)
Net property income	493 814	4 586 875	479 753	(6 594)	(119 017)	354 142	23 401
30 June 2018							
Retail	137 345	2 304 450	246 679	(517)	(64 249)	181 914	186 908
Industrial	320 063	1 626 475	176 042	(21 090)	(26 568)	128 384	125 104
Office	18 495	320 775	34 088	2 585	(8 214)	28 458	10 575
Specialised*	–	93 400	7 104	(63)	(345)	6 695	4 003
Property under development	9 825	106 863	–	–	–	–	–
Net property income	485 728	4 451 963	463 913	(19 085)	(99 376)	345 452	326 590

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

Annexure to the financial statements

for the year ended 30 June 2019

Non-IFRS measure – distributable earnings

In terms of REIT legislation, a REIT is required to distribute at least 75% of its taxable earnings, or distributable income, to shareholders annually. Heriot's distributable income has been calculated as follows:

	GROUP	
	For the year ended 30 June 2019 R'000	For the 13 months ended 30 June 2018 R'000
Contractual rental income and recoveries	**479 753**	463 913
Property expenses	**(119 017)**	(99 376)
Other income	**7 670**	12 733
Administrative and corporate costs	**(33 539)**	(34 481)
Net finance charges	**(123 305)**	(135 371)
Taxation	**(2 150)**	(1 033)
Attributable to minorities	**(2 869)**	(3 451)
Distributable earnings attributable to equity holders of the company	**206 543**	202 934
Number of shares in issue as at the reporting date*	**255 395 858**	255 395 858
Distribution per share	**80,87**	79,27
Paid as to:		
Interim dividend per share	**39,50**	35,09
Final dividend per share	**41,37**	44,18

* *Excluding the 900 000 treasury shares in issue.*

Shareholder analysis

Company: Heriot REIT Limited
Register date: 28 June 2019
Issued share capital: 256 295 858

	Number of shareholdings	%	Number of shares	%
Shareholder spread				
1 – 1 000 shares	31	60,78	5 027	0,00
1 001 – 10 000 shares	1	1,96	4 983	0,00
10 001 – 100 000 shares	6	11,77	600 000	0,24
100 001 – 1 000 000 shares	6	11,77	3 970 000	1,55
1 000 001 shares and over	7	13,72	251 715 848	98,21
Total	**51**	**100,00**	**256 295 858**	**100,00**
Distribution of shareholders				
Individuals	42	82,35	11 040 360	4,31
Private companies	7	13,73	244 255 498	95,30
Treasury stock	1	1,96	900 000	0,35
Trust	1	1,96	100 000	0,04
Total	**51**	**100,00**	**256 295 858**	**100,00**
Public/non-public shareholders				
Non-public shareholders	5	9,80	236 631 220	92,33
Directors and associates of the company	4	7,84	235 731 220	91,98
Treasury stock	1	1,96	900 000	0,35
Public shareholders	46	90,20	19 664 638	7,67
Total	**51**	**100,00**	**256 295 858**	**100,00**
Beneficial shareholders holding 3% or more				
SB Herring			222 653 881	86,87
RL 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)
JSE share code: HET
ISIN: ZAE000246740
(Approved as a REIT by the JSE)
(“**Heriot**” or “**the company**” or “**the group**”)

This document is important and requires your immediate attention

If you are in any doubt as to what action you should take in respect of the following resolutions, please consult your Central Securities Depository Participant (‘CSDP’), broker, banker, attorney, accountant or other professional advisor.

Notice is hereby given to the shareholders of the company as at Friday, 25 October 2019, being the record date to receive the annual general meeting notice in terms of section 59(1)(a) of the Companies Act 71 of 2008 (“**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 10:00 on Tuesday, 10 December 2019 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, 29 November 2019, 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, 26 November 2019.

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 year ended 30 June 2019, be and are hereby received and adopted.”

Ordinary resolution 2: Confirmation of appointment of Robin Lockhart-Ross as director

“Resolved that the appointment of Robin Lockhart-Ross as a non-executive director be and is hereby confirmed.”

A brief curriculum vitae of Robin Lockhart-Ross is set out on page 3 of the integrated report of which this notice forms part.

The board of directors (the “board”) has considered Robin’s qualifications and experience and recommends that Robin be elected as aforesaid.

Ordinary resolution 3: Re-election of Janys Ann Finn as director

“Resolved that Janys Ann Finn who retires in terms of the company’s Memorandum of Incorporation and who, being eligible, offers herself for re-election, be re-elected as a director and chief financial officer of the company”

A brief curriculum vitae in respect of Janys Ann Finn is set out on page 2 of the integrated report of which this notice forms part.

The board has considered Janys' past performance and contribution to the company and recommends that Janys be re-elected as aforesaid.

Ordinary resolution 4: Re-election of Selwyn Joel Blieden as director

"Resolved that Selwyn Joal Blieden who retires in terms of the company's memorandum of incorporation and who, being eligible, offers himself for re-election, be re-elected as an independent non-executive and lead independent director of the company".

A brief curriculum vitae in respect of Selwyn Joel Blieden, is set out on page 2 of the integrated report of which this notice forms part.

The board has considered Selwyn's past performances and contribution to the company and recommends that Selwyn be re-elected as aforesaid.

Ordinary resolution 5: Re-appointment of auditor

"Resolved that BDO Incorporated, together with Paul Richard Badrick as the designated auditor, be and are hereby re-appointed as auditors of the company, with effect from the conclusion of this annual general meeting."

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

Ordinary resolution 6: Re-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:

6.1 Selwyn Joel Blieden (Chairman of the audit and risk committee), subject to the passing of ordinary resolution 4 above;

6.2 Trevor John Cohen; and

6.3 Nelson Ngale.

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

Ordinary resolution 7: Approval of Remuneration Policy and Remuneration Implementation Report

Ordinary resolution 7.1: Approval of Remuneration Policy

"Resolved that, through a non-binding advisory vote, the company's remuneration policy, a summary of which is disclosed on pages 27 and 28 of the integrated report be and is hereby approved."

Ordinary resolution 7.2: Approval of Remuneration Implementation Report

"Resolved that, through a non-binding advisory vote, the company's remuneration implementation report, as disclosed on pages 28 and 29 of the integrated report be and is hereby approved."

In line with the King IV Report on Corporate Governance and the JSE Listings Requirements, 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 8: 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 are the subject of general issues for cash shall not exceed 25 539 585 shares being 10% of the company's issued shares (excluding treasury 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 25 539 585 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 information (if any) of the intended use of the funds."

Voting

In terms of the JSE Listings Requirements, the approval of a 75% majority of votes cast by shareholders present or represented by proxy at this annual general meeting is required for the passing of this ordinary resolution number 8.

Special resolutions

Special resolution 1: 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 to repurchase on behalf of the company, shares in the issued share capital of the company as follows:
   i. the repurchase of shares 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 affected by a subsidiary) as at the date on which this special resolution is passed;
   ii. the repurchase of shares 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 are 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 (reported trades are prohibited);

iv. an announcement will be published as soon as the company or any of its subsidiaries has repurchased shares constituting, on a cumulative basis, 3% of the number of that class of 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 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 "shareholders' analysis" section in Heriot's 2019 Audited Annual Financial Statements (page 81).
- Share capital of the company – see "note 11" on page 60 in Heriot's 2019 Audited Annual Financial Statements.

Reason for and effect of special resolution 1

The reason for the passing of special resolution 1 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 1 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 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 of annual general meeting.

Special resolution 2: 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 2

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 2. Therefore, the reason for, and effect of, special resolution 2 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 2.

Ordinary resolution 9: 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 7, (and special resolutions 1, and 2)."

In order for:

a. each of ordinary resolutions 1 to 6 and ordinary resolution 9 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 resolutions 7.1 and 7.2 are of a non-binding advisory nature and 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.
c. ordinary resolution 8 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
d. each of special resolutions 1 and 2 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 or posted to the office of the transfer secretaries of the company to be received by 10.00 on Friday, 6 December 2019 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 10.00 on Friday, 6 December 2019 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 10.00 on Friday, 6 December 2019 by submitting, by email to the company secretary at nazli.reid@computershare.co.za or by fax to 011 688 5243, for the attention of Nazli Jacobs, 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
24 October 2019

Form of proxy

Heriot REIT Limited
(Incorporated in the Republic of South Africa)
(Registration number: 2017/167697/06)
Share code: HET
ISIN: ZAE000246740
(**"Heriot"** or **"the company"** or **"the group"**)

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 10.00 on Tuesday, 10 December 2019 (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 10.00 on Friday, 6 December 2019 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

______________________________ or failing him/her

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 10.00 on Tuesday, 10 December 2019, and at any adjournment thereof, and to vote for me/us on my/our behalf in respect of the undermentioned resolutions.

Form of proxy continued

	For	Against	Abstain
Ordinary resolution no. 1: Adoption of annual financial statements			
Ordinary resolution no. 2: Confirmation of appointment of Robin Lockhart-Ross as a director of the company			
Ordinary resolution no. 3: Re-election of Janys Ann Finn as a director of the company			
Ordinary resolution no. 4: Re-election of Selwyn Joel Blieden as director of the company			
Ordinary resolution no. 5: Re-appointment of the auditors			
Ordinary resolution no. 6: Re-appointment of the members of the audit and risk committee:			
6.1 Selwyn Joel Blieden *(Chairman)*			
6.2 Trevor John Cohen			
6.3 Nelson Ngale			
Ordinary resolution no. 7: Approval of the Remuneration Policy and Remuneration Implementation Report			
7.1 Approve of Remuneration Policy (non-binding advisory vote)			
7.2 Approval of Remuneration Implementation Report (non-binding advisory vote)			
Ordinary resolution no. 8: General authority to issue shares for cash			
Special resolution no.1: General authority to repurchase the shares			
Special resolution no.2: Financial assistance to related or inter-related parties			
Ordinary resolution no. 9: 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 2019

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, 29 November 2019, 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, to reach the company by 10.00 on Friday, 6 December 2019 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. AA 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 aforegoing, 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 aforegoing notes contain a summary of the relevant provisions of section 58 of the Companies Act, as required in terms of that section.

Broad-based economic empowerment compliance certificate

B-BBEE COMMISSION
a member of the dti group

Compliance Report by Companies Listed on the Johannesburg Stock Exchange (JSE)

(in terms of Section 13G (2) of the Act)

Case Number | | **FORM BBBEE 1**

SECTION A: DETAILS OF ENTITY

Name of Entity / Organisation	Heriot Reit Limited
Registration Number	2017/167697/06
Physical Address	Suite 1, Ground floor, 3 Melrose Arch Johannesburg, 2196
Telephone Number	+2711 684 1570
Email Address	Jfinn@heriot.co.za
Indicate Type of Entity / Organisation	Property holding and investment
Industry / Sector	Property
Relevant Code of Good Practice	Amended Property Sector Codes of 2017
Name of Verification Agency	Honeycomb BEE Ratings Pty Ltd
Name of Technical Signatory	Kyle Mitchell

SECTION B: INFORMATION AS VERIFIED BY THE BROAD-BASED BLACK ECONOMIC EMPOWERMENT VERIFICATION PROFESSIONAL AS PER SCORECARDS

B-BBEE Elements	Target Score Including	Bonus Points	Actual Score Achieved
Ownership	e.g. 25 points		0
Management Control	e.g. 19 points		1.51
Skills Development	e.g. 20 points		0
Enterprise and Supplier Development	e.g. 40 points		5.28
Socio-Economic Development	e.g. 5 points		5
Total Score	e.g. 109 points	0	12.45
Priority Elements Achieved	YES / NO and specify them	No	
Empowering Supplier Status	YES / NO and specify them	Yes	
Final B-BBEE Status Level	Non compliant		

*indicate how each element contributes to the outcome of the scorecard

Compliance Report (Form B-BBEE 1) (in terms of Section 13G (2) of the Act)

SECTION C: FINANCIAL REPORT

1. BASIC ACCOUNTING DETAILS:

a. Accounting Officer's Name: Janys Ann Finn

b. Address:
Suite 1, Ground floor, 3 Melrose Arch
Johannesburg
2196

c. Accounting Policy: (*Your accounts are done?*)

Weekly	Monthly	Other (specify)
	x	

d. Has the attached Financial Statements and Annual Report been approved by the entity? Yes

2. PLEASE ATTACH THE FOLLOWING:

i) Copy of Annual Financial Statement including Balance Sheet and Income and Expenditure Report. Attached

ii) Annual Report: FY 2019 attached

3. Entity Annual Turnover: **R** 479,753,000

4. Sign-off and Date

	30/10/2019
Signature	**Date**

Shareholders' diary

Financial year-end	30 June
Annual general meeting	Tuesday, 10 December 2019
Integrated report released	Wednesday, 31 October 2019

Corporate information

Heriot REIT Limited
(Registration number 2017/167697/06)
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
SB Herring *(Chairperson)**
RL Herring *(CEO)*
JA Finn *(CFO)*
SJ Blieden*†
TJ Cohen*†
R Lockhart-Ross*†
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 Streets
Johannesburg 2001
(PO Box 786273, Sandton 2146)

Auditor
BDO South Africa Incorporated
52 Corlett Drive
Wanderers Office Park
Illovo 2196
(Private Bag X28, Benmore 2010)

Heriot
REIT *Committed to excellence*

www.heriotreit.com