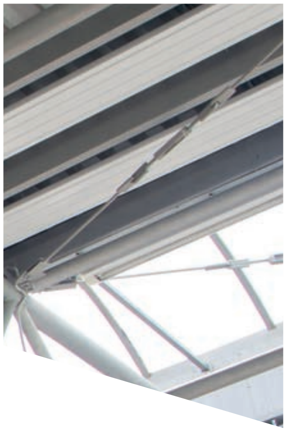
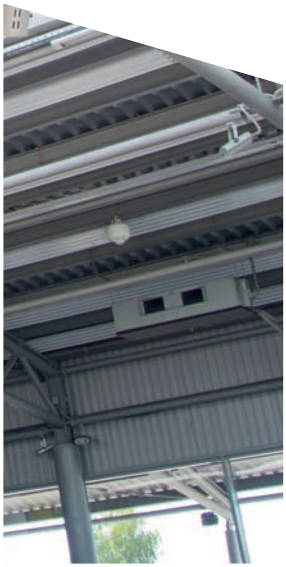
Heriot
REIT *Committed to excellence*



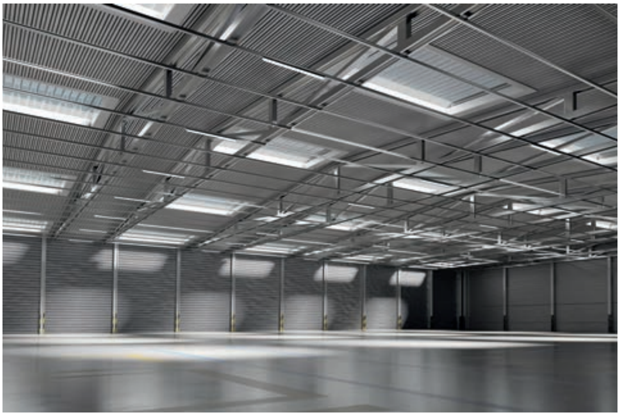


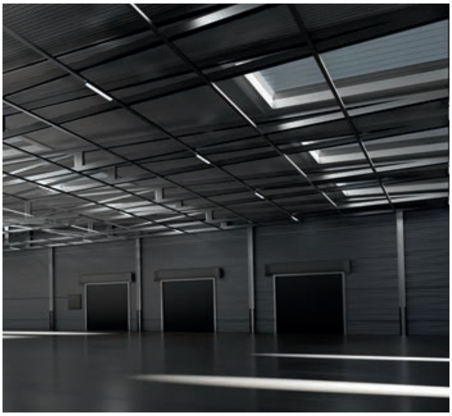



INTEGRATED REPORT 2020

for the year ended 30 June

Contents





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") is a property holding and investment company, listed in the "Diversified REITs" sector on the Alternative Exchange of the JSE Limited ("JSE").

Heriot is invested in a diversified portfolio of assets with a focus on emerging market retail and industrial properties within Southern Africa for the purposes of generating capital growth and secure escalating net rental income streams for shareholders.

43
Investment properties

R4,465 billion

500 932 m^2 GLA

Net asset value
R11,07
per share

Loan-to-value
36,9%

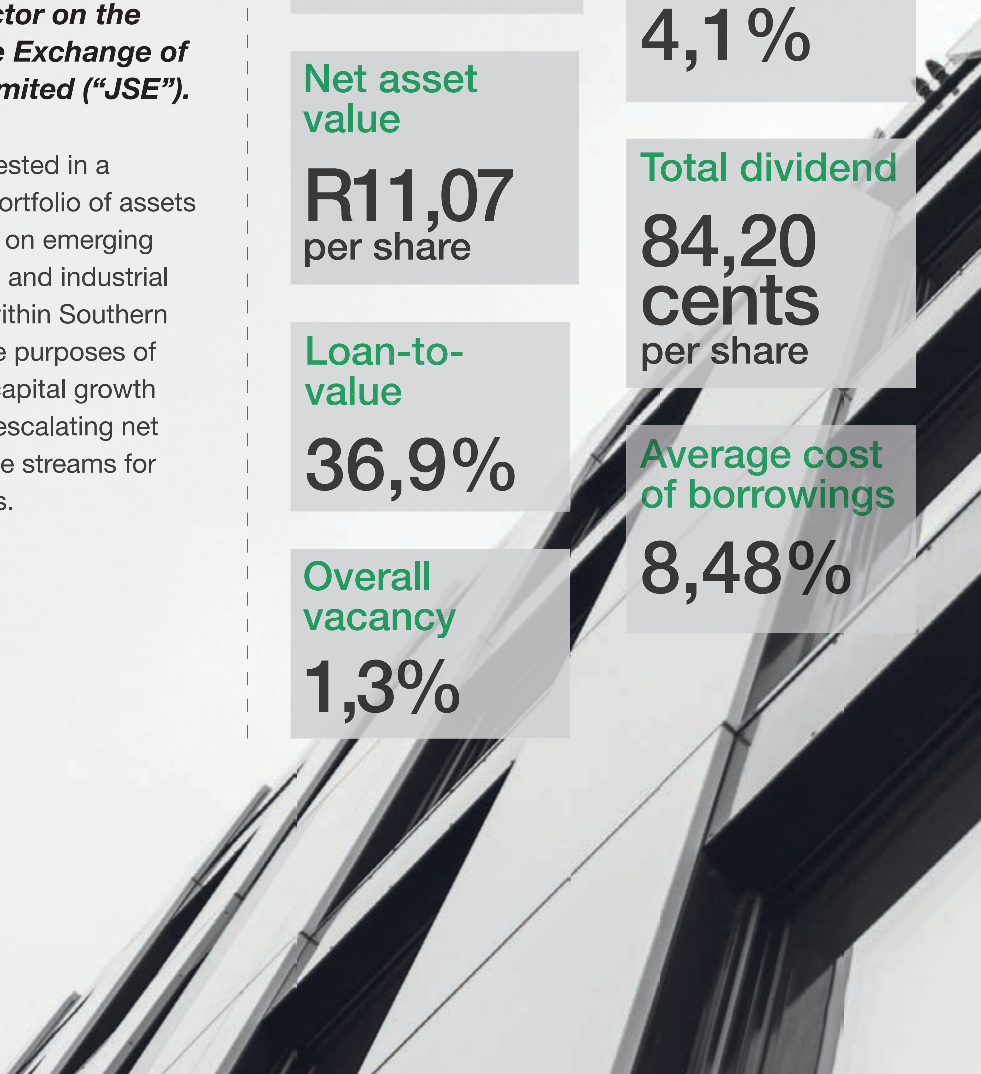
Overall vacancy
1,3%

Distributable income payout ratio
100%

Distributable earnings growth
4,1%

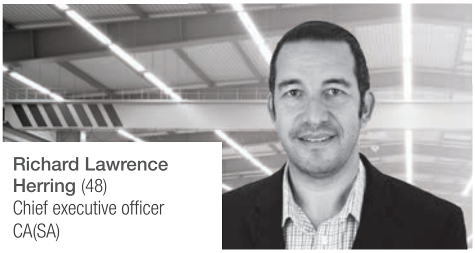
Total dividend
84,20 cents
per share

Average cost of borrowings
8,48%



Directorate

EXECUTIVE DIRECTORS



Richard Lawrence Herring (48)
Chief executive officer
CA(SA)

Richard is a qualified chartered accountant who served articles at 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 chief executive officer ("CEO") of Heriot and his responsibilities include the management, growth and development of the portfolio.

Committee member

Janys Ann Finn (56)
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 chief financial officer ("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.

Committee member

NON-EXECUTIVE DIRECTORS

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.

Committee member

Steven Bernard Herring (49)
Non-executive chairman
Undergraduate degree in Marketing (University of Johannesburg), Masters of Business Administration – Heriot-Watt University

Selwyn Joel Blieden (48)
Lead 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 12 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.

Committee member

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.

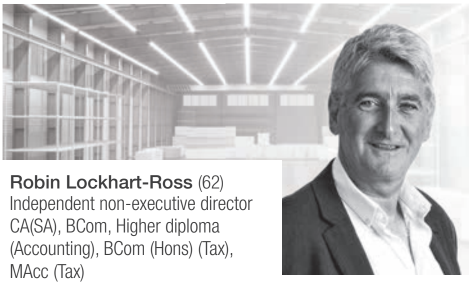
Committee member

Trevor John Cohen (78)
Independent non-executive director
BCom, LLB

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.

Committee member

Nelson Abram Ngale (58)
Independent non-executive director



Robin Lockhart-Ross (62)
Independent non-executive director
CA(SA), BCom, Higher diploma (Accounting), BCom (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 Service 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.

Rob 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.

Committee member

Committee memberships

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

Portfolio REVIEW

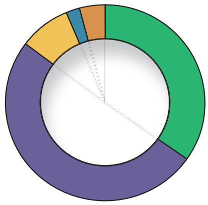
Property	Address
Retail	
Tsakane*	Modjadji and Malandela Streets, Tsakane, Brakpan, Gauteng
Tembisa	Cnr Andrew Mapheto Drive and Isimuku Roads, Tembisa, Gauteng
Phokeng Mall	Sun City Main Road, Phokeng, North West
Shoprite Fishhoek	54 Main Road, Fishhoek, Western Cape
Shoprite Sea Point	Main Road, The Towers, Sea Point, Cape Town, 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, Limpopo
Shoprite Athlone	Cnr Birchwood and Cornhill Streets, Athlone, Western Cape
Shoprite Kempton Park	Cnr West Street and Oak Avenue, Kempton Park, Johannesburg, Gauteng
Shoprite Rustenburg	10 Kroep Street, Ou Dorp, Rustenburg, North West
Total retail	
Industrial	
Cleveland	11 Cleveland Road, Cleveland Ext 5, Johannesburg, Gauteng
Hermans (Supergroup) Midrand	875 and 876 Freight Road, Louwlardia, Centurion, Gauteng
Masscash Denver	65 Mimetes Avenue, Denver, Johannesburg, Gauteng
Mpact Pinetown	17 Oppenheimer Street, Pinetown, KwaZulu-Natal
Mpact Epping	Lossack Street, Epping Extension 2, Cape Town, Western Cape
Mpact Nelspruit	13 Heyneke Street, Nelspruit, Mpumulanga
Mpact Kuilsriver	40 Fabriek Street, Kuilsriver, Western Cape
Mpact Brakpan	1 Molecule Road, Vulcania, Brakpan, Gauteng
Mpact Wadeville	Cnr Moore/Dekema and Lantern Roads, Wadeville, Johannesburg, Gauteng
Dawn*	Cnr Barlow Road and Cavaleros Drive, Jupiter, Elandsfontein, Gauteng
ABB Alrode	4 and 6 Clarke Street, Alrode, Johannesburg, Gauteng
Metro Devland	Cnr East Street and Piston Road, Soweto, Devland, Johannesburg, Gauteng
Metro Hyper Windhoek	Erf 1211, Klein Kuppe, Windhoek, Namibia
Imperial Bloemfontein*	19 Hoof Laan, Estoire, Bloemfontein, Free State
Imperial Goodwood*	239 to 283 Voortrekker Road, Goodwood, Cape Town, Western Cape
Imperial Kimberley*	Cnr Phkamile Mabija and Hull Streets, Kimberley, Northern Cape
Imperial Mount Edgecombe*	27 Siphosethu Road, Mount Edgecomb, Durban, KwaZulu-Natal
Hagley	Nooiensfontein Road, Hagley, Cape Town, Western Cape
Total industrial	

** 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.*

GLA m²	Average rent per m²	Vacancy m²	Valuation R'000
39 367	122,63	500	400 000
25 014	191,48	–	690 000
16 918	116,91	468	210 000
3 497	125,06	–	50 500
2 638	148,92	–	53 800
1 500	58,25	10	6 200
16 257	135,86	–	317 000
15 079	162,57	–	300 000
3 832	95,66	850	47 000
6 799	56,09	–	50 500
8 161	94,21	–	109 500
139 062	**134,40**	**1 828**	**2 234 500**
8 966	25,67	–	30 300
3 069	128,75	–	47 000
34 100	49,37	–	195 000
23 867	42,93	–	120 000
28 894	37,11	–	132 000
11 357	47,38	–	73 400
20 409	28,12	–	76 600
24 936	17,82	–	56 000
23 000	70,06	–	138 000
49 822	62,57	–	207 000
18 605	44,35	–	108 000
6 635	45,81	–	43 500
13 500	45,83	–	94 800
17 906	59,01	–	85 200
4 000	55,70	–	14 650
2 356	66,51	–	9 600
18 136	57,07	–	74 000
8 086	80,56	600	30 750
317 644	**48,99**	**600**	**1 535 800**

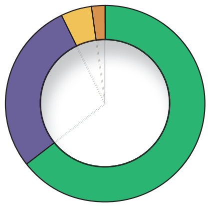
Sectoral profile

Value



- **34,8%** Industrial
- **50,6%** Retail
- **8,4%** Office
- **2,3%** Specialised
- **3,9%** Residential

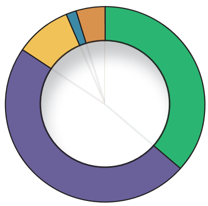
Total GLA (m²)*



- **64,5%** Industrial
- **28,3%** Retail
- **5,2%** Office
- **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



- **36,7%** Industrial
- **47,9%** Retail
- **9,1%** Office
- **1,8%** Specialised
- **4,5%** Residential

Portfolio review continued

Property	Address
Office	
Super Group	27 Impala Road, Chislehurston, Sandton, Gauteng
Melrose Arch – Unit 9a	Unit 9a, 1st Floor, 3 Melrose Boulevard, Melrose Arch, Johannesburg, Gauteng
Melrose Arch 4th floor	4th Floor, 3 Melrose Boulevard, Melrose Arch, Johannesburg, Gauteng
Wynberg Mews	1 Brodie Road, Wynberg, Cape Town, Western Cape
Hyundai*	Cnr Lucas and Norman Roads, Bedfordview, Johannesburg, Gauteng
Europcar*	16 Ernest Oppenheimer Avenue, Bruma, Johannesburg, Gauteng
Renault*	10/12 Ernest Oppenheimer Street, Bruma, Johannesburg, Gauteng
Total office	
Specialised – paper plantations	
Lions Glen/Ihlati/Geluk/ Gemsbokfontein	Lions Glen – North West Ihlati – Holkrans KwaZulu-Natal Geluk – Mpumalanga Gemsbokfontein – Limpopo
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, Western Cape
Total residential	
Investment property	
Non-current assets held for sale	
Mpact Port Elizabeth	2 – 8 Savotex Road, Deal Party Estate, Port Elizabeth, Eastern Cape
Total non-current assets held for sale	
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.*

^ *8 382 hectares of paper plantations are not included in the total GLA.*

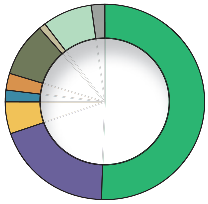
Property	Address
Other	
Property under development	Cnr Main Road and Rhodes Avenue, Rosebank, Mowbray, Western Cape
Owner occupied	Suite 1, 3 Melrose Boulevard, Melrose Arch, Johannesburg, Gauteng
Total owner occupied	
Total property portfolio	

Average annualised property portfolio yield 8,49%.

GLA m²	Average rent per m²	Vacancy m²	Valuation R'000
3 702	276,19	–	110 000
309	335,17	–	9 500
3 094	194,55	810	87 000
7 118	112,76	447	72 000
6 050	132,86	–	54 750
2 766	128,23	–	23 250
2 574	94,75	–	16 700
25 613	**122,22**	**1 257**	**373 200**
^	63,84 R/ha	–	58 000
^	127,93 R/ha	–	21 600
^	76,35 R/ha	–	13 500
^	67,68 R/ha	–	9 500
	71,79 R/ha		**102 600**
9 825	155,74	2 646	171 300
9 825	**155,74**	**2 646**	**171 300**
492 144	**78,95**	**6 331**	**4 417 400**
10 505	30,47	–	47 500
10 505	**30,47**	**–**	**47 500**
502 649	**77,94**	**6 331**	**4 464 900**
5 532	–	–	89 462
717	–	–	22 000
6 249	**–**	**–**	**111 462**
508 898		**6 331**	**4 576 362**

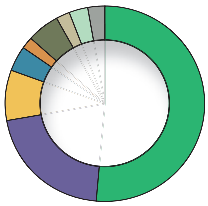
Geographic profile

Value



- **50,8%** Gauteng
- **19,2%** Western Cape
- **5,0%** KwaZulu-Natal
- **2,1%** Free State
- **2,6%** North West
- **9,1%** Mpumalanga
- **1,1%** Eastern Cape
- **8,0%** Limpopo
- **2,1%** Namibia

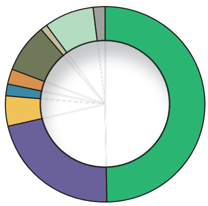
Total GLA (m²)*



- **51,5%** Gauteng
- **20,9%** Western Cape
- **8,4%** KwaZulu-Natal
- **4,0%** Free State
- **1,9%** North West
- **5,5%** 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



- **49,8%** Gauteng
- **21,8%** Western Cape
- **5,0%** KwaZulu-Natal
- **1,8%** Free State
- **2,5%** North West
- **8,2%** Mpumalanga
- **0,9%** Eastern Cape
- **8,2%** Limpopo
- **1,8%** Namibia

Portfolio review continued

Tenant analysis profile

	Based on rental %	Based on GLA (m^2)* %	Based on GLA (ha) %
A	77,0	85,5	100,0
B	10,3	5,5	–
C	12,7	7,7	–
Vacant	–	1,3	–
Total	**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 330 tenants.

Weighted average lease escalation

Sector	Based on GLA (m^2)* %	Based on GLA (ha)* %
Retail	6,4	–
Office	7,4	–
Industrial	7,8	–
Residential	–	–
Specialised	–	6,0
Weighted average/total	**7,3**	**6,0**

Lease expiry profile

	Total GLA (ha)* %	Total GLA (m^2)* %	Total gross rental %
Total portfolio			
Vacant	–	1,3	–
Monthly	–	–	–
June 2021	–	17,1	24,4
June 2022	–	9,3	12,3
June 2023	–	13,6	14,6
June 2024	–	14,2	14,5
June 2025	10,1	10,6	7,9
> June 2026	89,9	33,9	26,3
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 hectares, inclusion thereof in the analysis by GLA of the rest of the portfolio would not be meaningful for 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

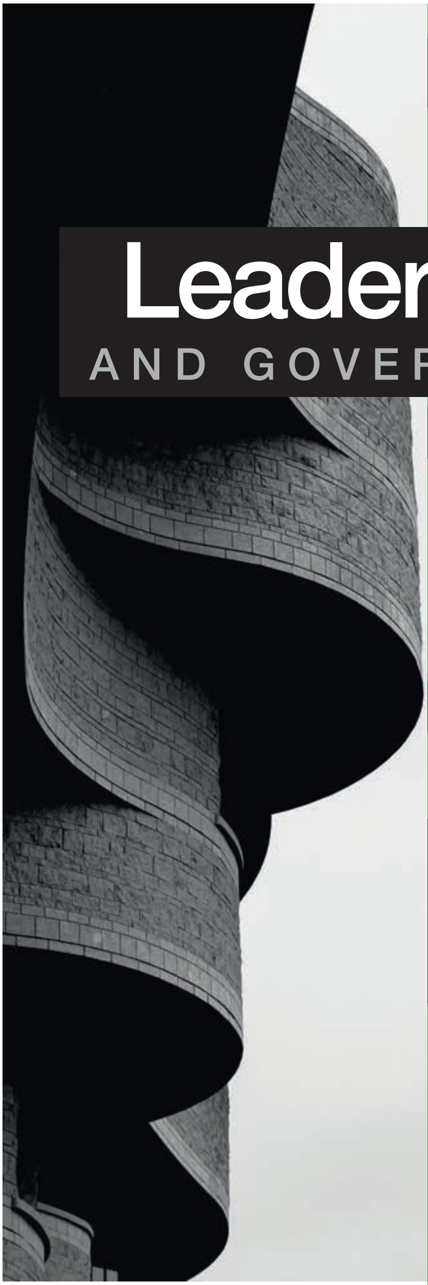
	Total GLA (m²) %	Total gross rental %
Industrial		
Vacant	0,2	–
Monthly	–	–
June 2021	12,4	0,4
June 2022	5,7	18,4
June 2023	12,5	13,9
June 2024	13,3	6,7
June 2025	13,4	14,7
> June 2026	42,5	45,9
Total	**100,0**	**100,0**
Retail		
Vacant	1,3	–
Monthly	–	–
June 2021	29,1	34,7
June 2022	15,5	17,5
June 2023	18,1	18,2
June 2024	14,2	13,9
June 2025	6,3	5,8
> June 2026	15,5	9,9
Total	**100,0**	**100,0**
Office		
Vacant	5,8	–
Monthly	–	–
June 2021	1,8	1,5
June 2022	22,4	17,7
June 2023	7,1	10,7
June 2024	28,0	40,6
June 2025	0,0	0,0
> June 2026	34,9	29,5
Total	**100,0**	**100,0**
Residential		
Vacant	–	–
Monthly	–	–
June 2021	100,0	100,0
June 2022	–	–
June 2023	–	–
June 2024	–	–
June 2025	–	–
> June 2026	–	–
Total	**100,0**	**100,0**

	Total GLA (m²) %	Total gross rental %
Specialised		
Vacant	–	–
Monthly	–	–
June 2021	–	–
June 2022	–	–
June 2023	–	–
June 2024	–	–
June 2025	10,1	18,5
> June 2026	89,9	81,5
Total	**100,0**	**100,0**

Vacancy analysis profile

Vacancy based on GLA	Vacancy based on GLA (m²)* %	Vacancy based on GLA (ha)* %
Retail	0,36	–
Office	0,25	–
Industrial	0,12	–
Specialised	–	–
Residential	0,53	–
Average/total	**1,26**	**–**

* *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.*



02 Leadership AND GOVERNANCE

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.

Chairman and CEO's REPORT

It is our pleasure to present Heriot's integrated report together with the group's results for the year ended 30 June 2020.

The 2020 financial year was a challenging year in South Africa. The macroeconomics in the second half of 2019 continued to deteriorate on the back of load shedding and the lack of confidence in the economy, and business confidence reached a 20-year low. Yet even under these conditions, Heriot was on target to meet the upper end of its forecast range of 6,0% to 8,0% growth in distributable earnings for the 2020 financial year, as was announced on 20 February 2020 and then March 2020 arrived, and with it the dawning of a global pandemic, the magnitude of which no one predicted. But although Heriot's earnings were negatively impacted by the hard lockdown announced by government in response to the COVID-19 pandemic on 22 March 2020, we still achieved growth in distributions of 4,1% for the 2020 year.

COVID-19 pandemic

The pandemic has had a far-reaching and devastating impact on South Africa, both on its economy and on its people. From the start of the lockdown period, Heriot actively engaged with all tenants and rental relief was granted to tenants on a case-by-case basis with reference to the tenants' ability to trade under the various levels during the lockdown period. Relief of R11,3 million was granted in the form of rental discounts to tenants during this period.

Chairman and CEO's report continued

In compliance with the guidelines provided by the government and the World Health Organisation, Heriot implemented protocols to create a safe and healthy environment for consumers, tenants and staff in all properties. These protocols included increased cleaning of high-risk areas, temperature taking, the provision of hand sanitation stations throughout the properties, the display of appropriate signage and encouraging social distancing measures.

Results

Heriot's focus on malls in the emerging market areas that cater more for daily needs of shoppers, together with the fact that a large portion of industrial tenants were deemed to be essential services providers, proved to be a fairly defensive tenant mix throughout the lockdown period. Further, Heriot benefited from the 300 bps drop in interest rates due to the low proportion of debt at fixed interest rates. As a result, despite the rental relief granted to tenants, Heriot's distributable earnings for the year ended 30 June 2020 increased by 4,1% to R215,0 million, or 84,20 cents per share, compared to distributable earnings of 80,87 cents per share in 2019. Due to strong cash management, Heriot continues to maintain a payout ratio of 100% of its distributable earnings.

Notwithstanding Heriot's solid performance for the year under review, the net asset value decreased by 4,3% to R11,07 per share. This decrease is mainly as a result of the more conservative approach adopted by valuers due to market uncertainty and rental reversions, predominantly in the industrial sector.

Property portfolio

Heriot owns a diverse portfolio of 43 properties, valued at R4,47 billion and while the group is invested across all major sectors in South Africa, the focus is on emerging market retail and industrial properties.

In line with Heriot's strategy, the group is continually looking at ways to grow Heriot's asset base through the acquisition of high-quality properties and the redevelopment of existing properties. To this end, a retail property owned by Heriot, situated in Mowbray, Cape Town, was identified as being exceptionally well located for student accommodation given its close proximity to UCT. In March 2020, the development of ground floor retail with around 450 beds for student accommodation commenced for completion in time for the 2023 academic year.

We took transfer of an office property, anchored by NSFAS, at the beginning of the financial year and acquired two properties for possible redevelopment into residential, transfer for both of which were pending at year end. Further, we disposed of an industrial property in Port Elizabeth to the tenant, Mpact, at a yield of 8,8%.

Funding

Heriot's gearing ratio crept up marginally during the year to a net gearing ratio of 36,9%, mainly as a result of the decrease in the value of the portfolio.

The low level of fixed debt allowed Heriot to benefit significantly from the 300 bps drop in the repo rate in the past year but, as the movements in the rate were mainly effected in the second half of the financial year, the full benefit of the interest rate reductions will only be realised in the 2021 financial year. Over and above the interest rate reductions, debt of R925,57 million was refinanced at attractive rates towards the end of the financial year and accordingly, it is expected that the average cost of borrowings will drop by about 200 bps to 6,5% for the 2021 financial year.

As required by the board, management actively monitors interest rate trends and bond curves and regularly engages with various financial institutions to assess debt hedging pricing and structures with a view to increasing the level of fixed debt to 40%. Current consensus is that interest rates are unlikely to increase by more than 50 bps during the 2021 financial year and on this basis, the board is comfortable with current hedging levels.

Market conditions

Market conditions in South Africa are challenging. For some years, consumers have been under pressure with less disposable income due to increases in electricity, fuel and a weak rand and, with the damaging impact of the COVID-19 pandemic and associated lockdown, consumers are facing some of their toughest times yet. Not only has unemployment reached unprecedented levels with many people losing their jobs as a result of the pandemic, but Moody's finally downgraded South Africa to junk status in the first quarter of this year.

At the date of this report, lockdown levels have been eased to level 1 and although Heriot had no significant new vacancies directly attributable to the impacts of the pandemic at 30 June 2020, some tenant failure may be inevitable in the 2021 financial year as the impact of the restrictive lockdown on tenants unfolds. However, we do take some comfort in the fact that Heriot's retail earnings are somewhat protected by virtue of the fact that the group's 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, our portfolio is anchored by a high percentage of national tenants with long-term leases, 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.

Governance and corporate social responsibility

While Heriot has established solid governance structures in the three years since its listing, it remains dedicated to enhancing and improving these structures over time.

In line with Heriot's objective of making a positive, sustainable impact on the communities in which it operates, the group continues to seek and implement initiatives to improve the quality of lives of these disadvantaged communities. Additional details of these initiatives have been provided in the report of the social and ethics committee on pages 30 and 31 of this integrated report.

Prospects

Heriot's focus for the forthcoming financial year will be to retain existing tenants and to limit vacancies while continuing in its efforts to grow its asset base.

Given the high levels of uncertainty in the market and low levels of investor and consumer confidence, the board has resolved not to provide earnings and distribution guidance until it is comfortable that such guidance is highly probable.

Appreciation

We extend our thanks to the executive team and the Heriot staff for their commitment and hard work, especially during the lockdown period. Due to their tremendous efforts, Heriot achieved exceptional results during these unprecedented times. We also thank our fellow board members for their valuable input during the period under review and we thank our shareholders, tenants and all business partners for their ongoing support.

Steven Herring
Chairman

Richard Herring
CEO

29 October 2020

Corporate governance REPORT

The non-executive directors contribute a wide range of relevant industry skills, knowledge and experience to the board's decision-making processes.

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 and 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 director
Steven Bernard Herring *(Chairman)*
Independent non-executive directors
Selwyn Joel Blieden *(Lead independent director)* Trevor John Cohen Robin Lockhart-Ross Nelson Abram Ngale
Executive directors
Richard Lawrence Herring *(Chief executive officer)* Janys Ann Finn *(Chief financial officer)*

In accordance with the JSE Listings Requirements, all directors, other than Robin Lockhart-Ross who was specifically exempted, 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. Appointments are made in a formal and transparent manner and directors appointed during the year are required to have their 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, 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 is responsible for 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 CEO 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 in achieving its strategic objectives;
- Ensuring compliance with all relevant laws, regulations and codes of business practice;
- Maintaining good corporate governance;
- Ensuring that the group's affairs are conducted in a responsible and professional manner;
- Upholding the board's responsibilities to all stakeholders;
- Reviewing processes and procedures to ensure the effectiveness of the company's internal systems of control so that its decision-making capability and the accuracy of its reporting are maintained at a high level at all times;
- Ensuring the integrity of the group's integrated report; and
- Establishing a framework for the delegation of authority.

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.

Corporate governance report continued

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. 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 and directors are encouraged to take independent advice, at the company's expense, for the proper execution of their duties and responsibilities.

Audit and risk committee

Members
Selwyn Joel Blieden *(Chairman)*
Trevor John Cohen
Robin Lockhart-Ross

The CEO, CFO 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 reappointment of the independent external auditor;
- Oversight of the audit process and the relationship 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 CEO attends 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 the 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, the 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 CEO, the CFO and other members of the executive management team;
- Within the terms of the agreed framework, determine the total remuneration package of the CEO and each executive director including, where appropriate, bonuses, incentive payments and share options and/or conditional rights;
- Approve the service agreements for the CEO 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 including *inter alia* skills, experience, race and gender;
- 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 CEO and executive directors; and
- Develop a succession plan in respect of the CEO and executive directors.

Investment committee

Members
Steven Bernard Herring *(Chairman)*
Janys Ann Finn
Richard Lawrence Herring
Robin Lockhart-Ross

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 Abram Ngale *(Chairman)*
Janys Ann Finn
Richard Lawrence Herring

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.

Corporate governance report continued

Board and committee attendance

The attendance register of directors for each board and committee meeting for the period ended 30 June 2020 is set out below:

		Meeting date				
		18 Sep 2019	24 Oct 2019	10 Dec 2019	20 Feb 2020	4 Jun 2020
Board						
Steven Herring *(Chairman)*	*Non-executive director*	√	–	√	√	√
Selwyn Blieden	*Lead independent non-executive director*	√	–	√	√	√
Trevor Cohen	*Independent non-executive director*	√	–	√	√	√
Janys Finn	*Chief financial officer*	√	–	√	√	√
Richard Herring	*Chief executive officer*	√	–	√	√	√
Robin Lockhart-Ross	*Independent non-executive director*	√	–	√	√	√
Nelson Ngale	*Independent non-executive director*	√	–	√	√	√
Audit and risk committee						
Selwyn Blieden *(Chairman)*	*Independent non-executive director*	√	√	–	√	√
Trevor Cohen	*Independent non-executive director*	√	√	–	√	√
Robin Lockhart-Ross	*Independent non-executive director*	^	^	–	√	√
Nelson Ngale*	*Independent non-executive director*	√	√	–	*	*
Janys Finn	*Chief financial officer*	#	#	–	#	#
Richard Herring	*Chief executive officer*	#	#	–	#	#
Steven Herring	*Chairman*	#	#	–	#	#
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.
^ *Robin Lockhart-Ross was appointed to the board on 18 September 2019 and to the audit and risk committee on 10 December 2019.*
* *Nelson Ngale resigned from the audit and risk committee on 10 December 2019.*

While the investment committee meets regularly on an informal basis, no formal meetings of the Investco were held during the year under review. However, a formal meeting of the Investco was held on 15 September 2020.

A formal meeting of the social and ethics committee was held on 30 September 2020.

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 Negotiations with banks to reduce cost of borrowings

Risk management continued

Risk factor	Impact of risk	Mitigation strategies
Financing continued		
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
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 Member of the SA REIT Association Management 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 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

The board 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") 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. However, although Heriot mainly contracts with B-BBEE-compliant suppliers, Heriot remains non-compliant for the 2020 financial year.

Risk management continued

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 properties in line with its stated strategy. The terms of reference of the Investco, 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 has adopted a board charter and code of ethics and has established an audit and risk committee, a remuneration and nomination committee, an investment committee and a social and ethics committee, each of which has adopted terms of reference. The board is satisfied that it has fulfilled its responsibilities in accordance with its board charter for the reporting period, and will continue to monitor progress or shortcomings.

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 of diversity in the composition of the board and acknowledges that diversity of skills, experience, 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 while keeping the operational requirements of the company in mind. The board, as presently constituted, is diverse and experienced with a majority of non-executive directors and while no targets have been set as regards diversity, this is reviewed on an annual basis. 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.

Risk management continued

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, 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 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 function of the company secretary is outsourced and the role 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 backups managed internally. There are strict login 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 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 report of the remuneration and nomination committee 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.

Compliance with applicable laws

The company has remained compliant with the Companies Act, particularly with reference to the incorporation provisions as set out in the Companies Act and has operated in conformity with the company's Memorandum of Incorporation during the year under review.

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 Robin Lockhart-Ross. Robin was appointed to the ARC on 10 December 2019 and replaced Nelson Ngale who resigned from the committee on that date. The board makes appointments to the committee, subject to approval by shareholders at the annual general meeting.

The committee is governed by a formal charter which is reviewed annually. The committee meets at least three times a year and special meetings are convened when necessary. Details of attendance by members at meetings for the year ended 30 June 2020 are set out on page 18. The CEO, CFO and representatives of the external auditor and designated advisors are present at meetings by standing invitation.

The board has satisfied itself that:

- committee members have the necessary skills and experience to fulfil the responsibilities of the committee;
- committee members act independently;
- committee members have unrestricted access to all information, documents and explanations required in support of the discharge of their duties, as well as to the external auditor; and
- the committee has conducted its affairs in compliance with its terms of reference and has discharged its responsibilities contained therein.

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;
- the policies and procedures adopted to date are adequate and appropriate, having regard to Heriot's size and range of activities; and
- the company has established appropriate reporting procedures that are operating effectively.

The ARC uses the combined assurance model for assisting the board in assessing whether the significant risks facing the group are adequately mitigated. This model is about effectively co-ordinating management and internal and external assurance providers, increasing collaboration and developing a more holistic view of the organisation's risk. The committee has obtained 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 2020 to the board for approval. The annual financial statements, which the board has approved, will be presented for discussion and adoption at the annual general meeting to be held on Tuesday, 8 December 2020.

Selwyn Blieden
Audit and risk committee chairman

29 October 2020

Report of the remuneration and nomination COMMITTEE

I am pleased to present Heriot's remuneration report for 2020, 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 10 December 2019, the company's remuneration implementation report was 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.

The remuneration policy and the remuneration implementation report discussed further will be put to non-binding advisory shareholder votes at the upcoming annual general meeting of the company to be held on Tuesday, 8 December 2020. In the event of 25% or more of shareholders voting against the non-binding advisory votes, the board undertakes to engage actively with dissenting shareholders in order to address all legitimate concerns.

At the annual general meeting held on Tuesday, 10 December 2019, 100% of shareholders voted in favour of the remuneration policy and the remuneration implementation report.

Overview of the 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.

Report of the remuneration and nomination committee continued

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 2021 financial year.

Share purchase scheme

On an ad hoc 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, no further shares have been offered or allocated to scheme participants.

As at 30 June 2020, 9 700 000 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 CFO in terms of which she is subject to a notice period of two months. The CEO has no service contract but is also subject to two month's 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 2020, which is in line with the remuneration policy, are set out in note 22 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.

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.

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 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
Annual fee	
Chairman of the board	**325 000**
Member of the board	**300 000**
Fee per meeting	
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 2020 and proposed fees for 2021 are as follows:

	Actual 2020 R	Proposed 2021 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
Social and ethics committee member (including the chairperson)	**25 000**	25 000
Remuneration and nomination committee (including the chairperson)	**25 000**	25 000
Investment committee member (including the chairperson)	**25 000**	25 000

Selwyn Blieden
Remuneration and nomination committee chairman

29 October 2020

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 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 (chairman), the CEO, Richard Herring and the CFO, Janys Finn.

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.

For the period 1 July 2019 to date, Heriot has donated:

- **5 075** 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;
- **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; and
- **8 000** hand sanitisers to pensioners queuing for grants at the retail malls.

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 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

While Heriot is committed to becoming a B-BBEE-compliant company through employment equity promotion in the workplace, including procurement practices which support developing businesses and suppliers, enterprise creation and equity ownership in the group, 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. 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.

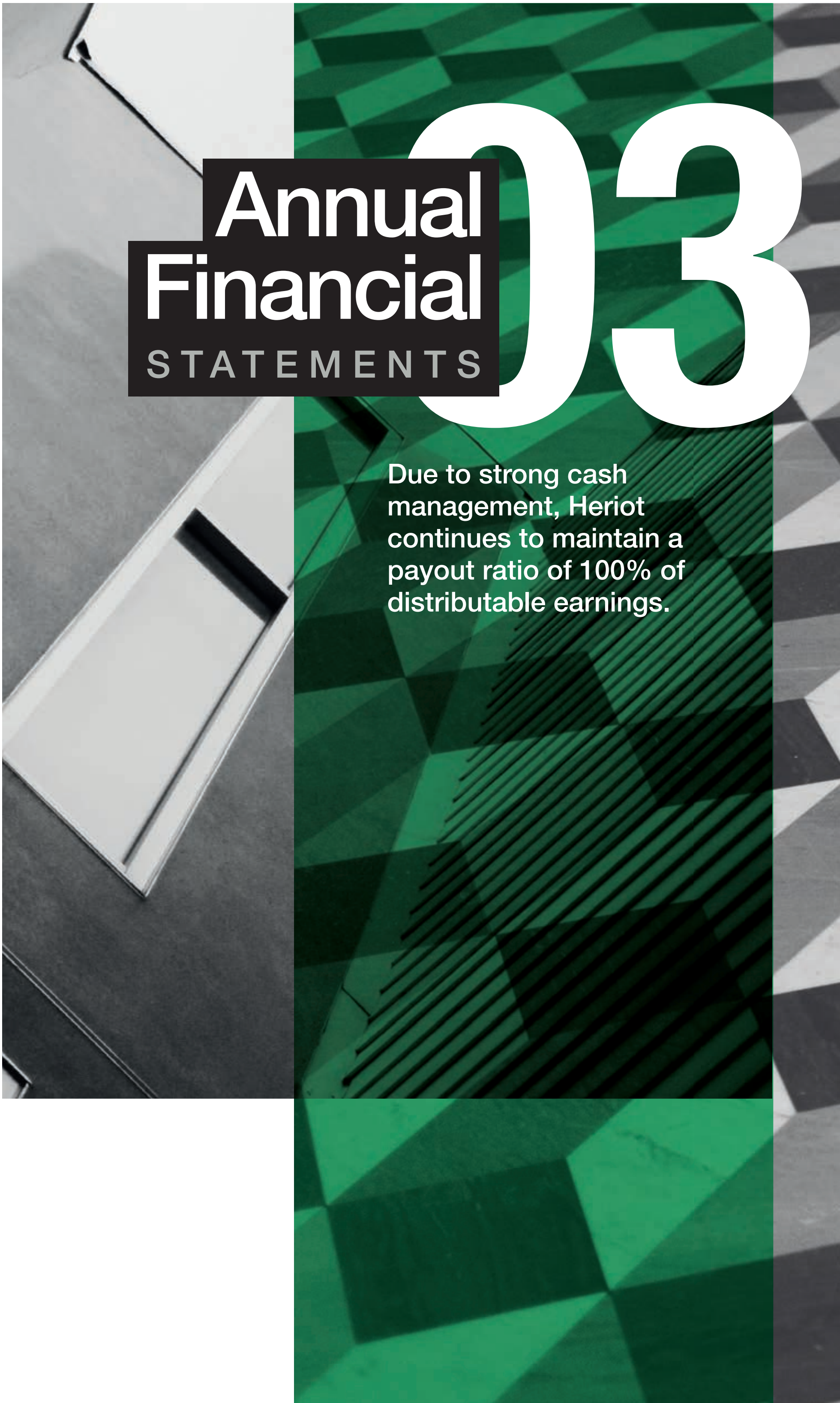
While the focus for 2021 is to improve the B-BBEE scorecard, the committee is mindful of the need to ensure that the costs relating thereto are not disproportionate to the operations of the group and that the improvement in the scorecard is in the context of growing the group's portfolio of assets, improving the shareholder spread and increasing 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.

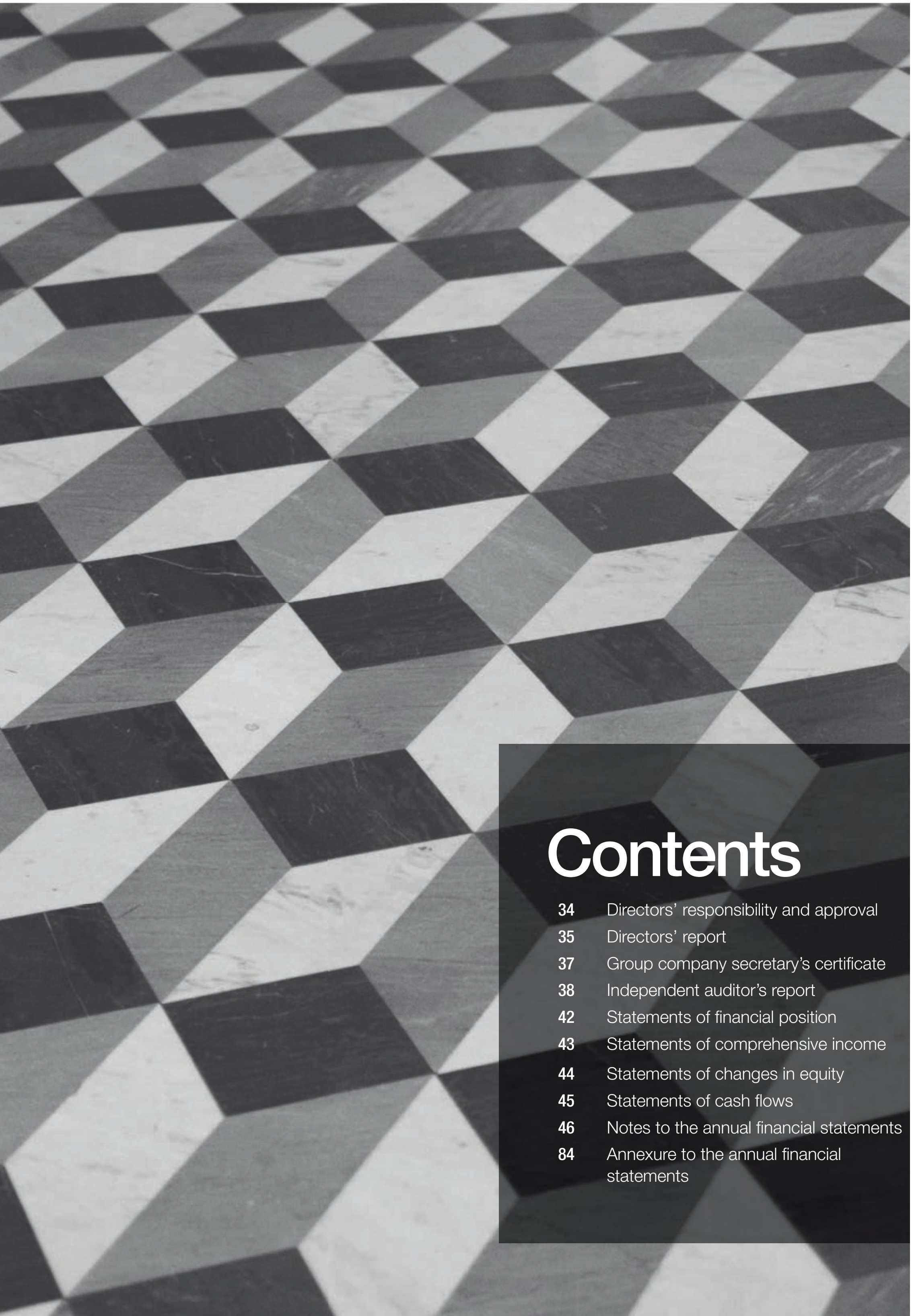
Nelson Ngale
Social and ethics committee chairman

29 October 2020



03 Annual Financial STATEMENTS

Due to strong cash management, Heriot continues to maintain a payout ratio of 100% of distributable earnings.



Contents

Directors' responsibility and approval

The directors are required by the Companies Act 71 of 2008 to maintain adequate accounting records and are responsible for the content and integrity of the consolidated annual financial statements and related financial information included in this report. It is their responsibility to ensure that the consolidated and separate company annual 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 of the consolidated and separate annual financial statements.

The consolidated and separate annual 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 endeavour 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 annual 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 2021 and, in light of this review and the current financial position, they are satisfied that the group and company has, or has access to, adequate resources to continue in operational existence for the foreseeable future.

The external 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 their report is presented on pages 38 to 41.

The annual financial statements set out on pages 42 to 83, which have been prepared on the going concern basis, were approved by the board of directors on 29 October 2020 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 consolidated annual financial statements of Heriot REIT Limited ("Heriot", the "company" or the "group") and its subsidiaries for the year ended 30 June 2020.

Nature of the business

Heriot, a property holding and investment company listed in the "Diversified REITs" sector on the Alternative Exchange of the JSE Limited ("JSE"), is invested in industrial, retail, office, residential and specialised properties valued at R4,5 billion, situated in areas with high-growth potential. The group's primary objective is to develop or acquire yield-enhancing assets within South Africa to create a stable and diverse portfolio of assets for the purpose of generating secure and escalating net rental income streams.

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

Review of the financial results and activities

The consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act. The operating results and state of affairs of the group and company are fully set out in the attached annual financial statements and do not, in our opinion, require any further comment. These annual financial statements were audited by our external auditor, BDO South Africa Incorporated.

Stated capital

There were no changes to the authorised or issued share capital during the year. 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 2020:

- Dividend number 5 – an interim dividend of 40,75000 cents per share for the six months ended 31 December 2019 was declared on 20 February 2020. The total dividend of R104,441 million was paid to shareholders on 16 March 2020; and
- Dividend number 6 – a final dividend of 43,45000 cents per share for the six months ended 30 June 2020 was declared to shareholders on 30 September 2020. The total dividend of R111,361 million will be paid to shareholders on 26 October 2020.

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

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

Executive

RL Herring	*Chief executive officer*
JA Finn	*Chief financial officer*

Non-executive

SJ Blieden	*Lead independent non-executive director*
TJ Cohen	*Independent non-executive director*
SB Herring	*Chairman*
R Lockhart-Ross	*Independent non-executive director (appointed 18 September 2019)*
N Ngale	*Independent non-executive director*

Directors' report continued

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 2020	**Direct**	**Indirect**	**Direct**	**Indirect**	**Total**	**%**
RL Herring*	850 000	11 377 339	–	–	12 227 339	4,8
JA Finn*	850 000	–	–	–	850 000	0,3
SJ Blieden	–	–	–	–	–	–
TJ Cohen	–	–	–	–	–	–
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

* *RL Herring and JA Finn each have 850 000 shares pledged as security for amounts owed to the company in terms of the employee share scheme. At 30 June 2020, the loans amounted to R9,1 million each.*

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

* *RL Herring and JA Finn each have 850 000 shares pledged as security for amounts owed to the company in terms of the employee share scheme. At 30 June 2020, the loans amounted to R9,0 million each.*

There has been no change to the directors' interests in shares between the year ended 30 June 2020 and the date of the approval of the annual financial statements.

Directors' interests in contracts

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

Events after the reporting period

Subsequent to the reporting date, the group disposed of an industrial property in Port Elizabeth for R47,5 million. The property was revalued to its selling price and was disclosed as an asset held for sale in the statement of financial position at 30 June 2020.

Further, the group further took transfer of:

- a commercial property in the Cape Town CBD, with a GLA of 4 931 m^2 or R42,0 million, equating to a yield of 9,4%; and

- a 50% undivided share of a small residential building in Illovo, Johannesburg at a yield of 12,0%. The property, which will be redeveloped into 100 residential units at an all-in cost to Heriot of about R25,0 million, will be held for rental income.

Going concern

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. At 30 June 2020, Heriot had agreements in place for the refinance of facilities totalling R925,57 million that were expiring in July 2020. In terms of the agreements, this debt has been refinanced for an average period of 39 months at an average interest rate of JIBAR plus a margin of 165 bps. Negotiations for the refinance of a facility of R132,2 million, expiring on 31 October 2020, were well advanced at year end and at the date of this report, agreement had been reached for the refinance of this facility for a period of two years.

On this basis, the directors believe that the group and company have adequate cash resources to continue operating for the foreseeable future and accordingly, the annual financial statements have been prepared on a going concern basis.

Auditor

Subject to the approval of the shareholders at the upcoming annual general meeting, BDO South Africa Incorporated will continue in office in accordance with section 90 of the Companies Act. The designated audit partner will remain unchanged and, on this basis, Paul Badrick will be the partner responsible for the audit.

Company secretary

CIS Company Secretaries Proprietary Limited, represented by Craig Laidlaw, is the company secretary. Mr Laidlaw is an attorney and an associate member of Chartered Secretaries South Africa.

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

The address of the secretary is set out below:

Postal address	PO Box 61051 Marshalltown 2107
Business address	Rosebank Towers 15 Biermann Towers Rosebank Johannesburg 2196

Preparer

The annual 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 2020, 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

Independent auditor's report

To the shareholders of Heriot REIT Limited

Report on the audit of the consolidated and separate 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 83, which comprise the consolidated and separate statements of financial position as at 30 June 2020, the consolidated and separate statements of profit or loss and other comprehensive income, the 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 2020, 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 Consolidated and Separate Financial Statements section of our report. We are independent of the group and company in accordance with the Independent Regulatory Board of Auditors' Code of Professional Conduct for Registered Auditors ("IRBA Code") and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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.

We have determined that there are no key matters in respect of the separate financial statements. The following key audit matter relates to the consolidated financial statements:

Key audit matter	How the matter was addressed
Valuation of investment property (consolidated financial statements) The group's investment properties represent the majority of its assets and are accounted for using the fair value model. Significant judgement is required in determining the fair value of investment property The portfolio is valued annually by an independent valuator, based on discounted cash flow models. The most significant inputs are set out in note 2 to the financial statements, all of which are unobservable. The valuation of investment property is considered to be a key audit matter due to the significance of the balance, the inputs into the valuation being inherently judgemental and the sensitivity of the valuations to changes in assumptions.	• We performed the following procedures among others: • Assessed the competency and objectivity of the independent valuator. This included verifying professional qualifications and registrations and making an assessment of the independence and appropriateness of the valuator used; • Through discussions with management and review of the valuation report, obtained an understanding of the work performed, which included among other, the valuation process adopted, the significant assumptions used, including the specific considerations of the impact of COVID-19 on the valuations and critical judgement areas applied, such as vacancy levels and capitalisation rates; • With the assistance of our internal corporate finance specialist, compared and assessed for reasonability, the significant assumptions, such as capitalisation and discount rates used and judgements applied by the valuator against historical inputs and market data, where available, and investigated unexpected movements; • For all property valuation calculations, we verified the mathematical accuracy of the models applied, determined the reasonability of the inputs and assessed the reasonability of management's forecast by comparing the forecast to the actual historical results for accuracy; and • Reviewed the adequacy of the disclosures in the financial statements, including disclosure on significant inputs and sensitivity analysis.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Heriot REIT Limited Annual Integrated Report for the year ended 30 June 2020", 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. 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 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.

Independent auditor's report continued

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, actions taken to eliminate threats or safeguards applied.

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 three years.

BDO South Africa Inc.

BDO South Africa Incorporated
Registered auditors

Paul Badrick
Director
Registered auditor

29 October 2020

Wanderers Office Park
52 Corlett Drive
Illovo 2196

Statements of financial position

as at 30 June 2020

		GROUP		COMPANY	
	Note	2020 R'000	2019 R 000	2020 R'000	2019 R 000
ASSETS					
Non-current assets		**4 575 317**	4 654 744	**2 469 429**	2 520 620
Investment property		**4 417 400**	4 586 875	**–**	–
Fair value of property portfolio	2	**4 455 922**	4 612 554	**–**	–
Straight-line rental income accrual	3	**(38 522)**	(25 679)	**–**	–
Property under development	4	**89 462**	–	**–**	–
Property, plant and equipment	5	**26 003**	25 312	**–**	–
Investment in subsidiaries	6	**–**	–	**2 434 070**	2 485 490
Investment in associate	7	**7 093**	7 427	**–**	–
Financial assets	8	**35 359**	35 130	**35 359**	35 130
Current assets		**164 631**	103 627	**224 244**	243 238
Trade and other receivables	9	**32 738**	31 577	**214 245**	207 743
Financial assets	8	**45 621**	43 318	**9 995**	35 487
Taxation		**14**	1 093	**–**	–
Cash and cash equivalents	10	**86 258**	27 639	**4**	8
Non-current assets held for sale	11	**47 500**	–	**–**	–
Total assets		**4 787 448**	4 758 371	**2 693 673**	2 763 858
Equity and liabilities					
Equity		**2 873 068**	2 999 824	**2 539 243**	2 611 585
Shareholders'in terest		**2 827 924**	2 954 949	**2 539 243**	2 611 585
Stated capital	12	**2 548 624**	2 548 624	**2 557 648**	2 557 648
Reserves		**279 300**	406 325	**(18 405)**	53 937
Non-controlling interests	13	**45 144**	44 875	**–**	–
Liabilities		**1 715 166**	984 154	**–**	–
Interest-bearing borrowings	14	**1 634 066**	914 734	**–**	–
Derivative financial instrument	15	**17 676**	6 304	**–**	–
Deferred taxation	16	**63 424**	63 116	**–**	–
Current liabilities		**199 214**	774 393	**154 430**	152 273
Interest-bearing borrowings	14	**132 185**	710 000	**–**	–
Other financial liabilities	17	**–**	–	**154 420**	152 266
Trade and other payables	18	**67 029**	64 393	**10**	7
Total equity and liabilities		**4 787 448**	4 758 371	**2 693 673**	2 763 858

Statements of comprehensive income

for the year ended 30 June 2020

		GROUP		COMPANY	
	Note	For the year ended 2020 R'000	For the year ended 2019 R'000	For the year ended 2020 R'000	For the year ended 2019 R'000
Revenue	19	**508 088**	473 159	**214 138**	206 194
Contractual rental income		**414 584**	384 176	**–**	–
Dividends received		**–**	–	**214 138**	206 194
Operating cost recoveries		**106 347**	95 577	**–**	–
Straight-line rental income accrual		**(12 843)**	(6 594)	**–**	–
Operating costs		**(139 416)**	(119 511)	**–**	
Net income		**368 672**	353 648	**214 138**	206 194
Equity-accounted profits/(losses) (net of taxation)	7	**266**	(3 003)	**–**	–
Other income		**12 955**	7 670	**–**	–
Administration costs		**(39 172)**	(33 539)	**(2 168)**	(2 399)
Impairment loss	20	**–**	–	**(76 912)**	(49 983)
Profit from operations	21	**342 721**	324 776	**135 058**	153 812
Finance charges	23	**(146 283)**	(137 327)	**–**	(386)
Finance income	24	**10 988**	14 022	**3 074**	3 133
Profit before fair value adjustments		**207 426**	201 471	**138 132**	156 559
Fair value adjustments	25	**(117 654)**	17 910	**–**	–
Profit before taxation		**89 772**	219 381	**138 132**	156 559
Taxation	26	**(1 714)**	(5 458)	**–**	–
Total comprehensive income for the year		**88 058**	213 923	**138 132**	156 559
Attributable to:					
Heriot shareholders		**82 710**	209 199		
Non-controlling shareholders		**5 348**	4 724		
		88 058	213 923		
Basic earnings per share (cents)	27	**32,39**	81,91		

Statements of changes in equity

for the year ended 30 June 2020

	GROUP			
	Share capital R'000	Reserves R'000	Non-controlling interests R'000	Total R'000
Balance 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	–	(213 715)	(6 249)	(219 964)
Balance at 30 June 2019	**2 548 624**	**406 325**	**44 875**	**2 999 824**
Total comprehensive income for the year	**–**	**82 710**	**5 348**	**88 058**
Dividends	**–**	**(209 735)**	**(5 079)**	**(214 814)**
Balance at 30 June 2020	**2 548 624**	**279 300**	**45 144**	**2 873 068**
Note	12		13	

	COMPANY		
	Share capital R'000	Reserves R'000	Total R'000
Balance 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	**–**	**(214 468)**	**(214 468)**
Balance at 30 June 2019	**2 557 648**	**53 937**	**2 611 585**
Total comprehensive income for the year	**–**	**138 132**	**138 132**
Dividends	**–**	**(210 474)**	**(210 474)**
Balance at 30 June 2020	**2 557 648**	**(18 405)**	**2 539 243**
Note	12		

Statements of cash flows

for the year ended 30 June 2020

	Note	GROUP For the year ended 2020 R'000	GROUP For the year ended 2019 R'000	COMPANY For the year ended 2020 R'000	COMPANY For the year ended 2019 R'000
Net cash generated from operating activities		**220 430**	204 038	**205 567**	188 827
Cash generated from operations	28.2	**356 052**	327 668	**202 493**	186 080
Finance charges		**(146 283)**	(137 327)	**–**	(386)
Finance income		**10 988**	14 022	**3 074**	3 133
Taxation paid	28.3	**(327)**	(325)	**–**	–
Net cash (utilised in)/generated from investing activities		**(87 331)**	(77 044)	**2 749**	311 360
Acquisition and development of investment property	2, 4	**(86 629)**	(113 411)	**–**	–
Acquisition of property, plant and equipment	5	**(1 748)**	(797)	**–**	–
Net loans repaid by subsidiaries	8	**–**	–	**–**	308 638
Loan repaid by related party	8	**4 740**	34 442	**–**	–
Loan advanced to related party	8	**(7 043)**	–	**–**	–
Share scheme debt repaid	8	**2 749**	2 722	**2 749**	2 722
Dividends received from associates		**600**	–	**–**	–
Net cash utilised in financing activities		**(74 480)**	(212 436)	**(208 320)**	(500 249)
Dividends paid to Heriot shareholders		**(209 735)**	(217 120)	**(210 474)**	(214 468)
Dividends paid to non-controlling shareholders		**(5 808)**	–	**–**	–
Net loans advanced by subsidiaries	17	**–**	–	**2 154**	113 965
Interest-bearing borrowings raised	28.4	**141 063**	32 044	**–**	–
Interest-bearing borrowings repaid	28.4	**–**	(27 360)	**–**	(399 746)
Net movement in cash and cash equivalents		**58 619**	(85 442)	**(4)**	(62)
Cash and cash equivalents at the beginning of the year		**27 639**	113 081	**8**	70
Cash and cash equivalents at the end of the year	10	**86 258**	27 639	**4**	8

Notes to the annual financial statements

for the year ended 30 June 2020

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

1. Accounting policies

1.1. Basis of preparation

The consolidated and separate annual financial statements are prepared on the historical cost basis, except for investment properties and certain financial instruments which are measured at fair value, and incorporate the principle accounting policies set out below. These accounting policies are consistent with those applied in the previous period other than for the new and revised accounting standards, outlined in note 1.16 to the annual financial statements, which had no material impact on the results.

The annual financial statements are prepared on the going concern basis and all values are rounded to the nearest thousand (R'000), except where otherwise indicated.

1.2. Statement of compliance

The consolidated and separate annual financial statements are prepared on the historical cost 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 j udgements

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

Impairment of trade receivables and amounts due by group companies

Trade receivables are amounts due from customers, mainly relating to rental income and operating cost recoveries. They are generally due for settlement within seven days and therefore are all classified as current. The group applies the IFRS 9 general approach to measuring expected credit losses which uses the lifetime expected credit loss approach. These lifetime expected credit losses are estimated using a provision matrix.

Impairment provisions for trade receivables 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 at the end of each reporting period.

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 acquired in terms of the business combination which allowances 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 using discounted cash flow projections. Cash flow projections are based on estimates of future net rental cash flows, discounted using rates that reflect current market assessments, together with external evidence such as current market rentals for similar properties in the same location.

Future rentals are estimated taking into account existing lease contracts and escalations, location, the condition of the property, lease covenants, current market rentals, conditions and the economy.

Derivative financial instruments

The valuation of derivative financial instruments determined using discounted cash flow projections, based on estimates of future cash flows, together with the relevant swap agreements as obtained from the recognised derivative dealer that values the instrument. The valuation further takes into account current market prices and conditions.

The estimates, judgements 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 group has control of an investee when it has power over the investee and has the ability to use its power to affect the amount the investee returns to the investor.

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 annual 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 annual 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 annual 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. Business combination

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

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

1.6. Investment property

Investment property

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

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

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

Gains or losses arising from changes in the fair values of investment property are included in profit or loss for the year in which they arise.

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.

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

Notes to the annual financial statements continued

for the year ended 30 June 2020

ready for its intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised. The capitalisation rate is arrived at by reference to the actual rate payable on borrowings for development purposes or, with regard to that part of development cost financed out of general groups, the weighted average cost of borrowings.

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.

1.7. Property, plant and equipment

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

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

Depreciation is calculated on the straight-line method, to write off the cost to their residual values over their estimated useful lives. The 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.

1.8. 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 cash 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 less accumulated impairment losses
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 through profit and loss 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

The group and company recognises a loss allowance for expected credit losses ("ECL") on trade and other receivables and loan receivables and investment in subsidiaries.

For trade receivables, the group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised in respect of defaulting trade receivables 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 receivable are derecognised when there is information indicating that the debtor is in severe financial difficulty and that there is no realistic prospect of recovery. Any recoveries made are recognised in profit or loss.

For loans receivable, credit risk is assessed based on the borrower's ability to service its debt as it falls due. The group and company apply the IFRS 9 general approach to measuring expected credit losses. The loss allowance for these financial assets is calculated with reference to expected credit losses for the next 12 months where credit risk has remained unchanged from the last reporting. Where there has been a significant change in risk, the loss allowance is calculated based on lifetime expected credit losses.

For investments in subsidiaries, the carrying value of each investment is assessed for impairment in terms of IAS 36 and in instances where the investment is considered to be impaired, the investment was written down to its estimated recoverable amount by way of an impairment loss. The estimated recoverable amount of each subsidiary is calculated by reference to its net asset value.

1.9. 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. Operating cost recoveries, based on consumption, and turnover rentals are recognised as revenue when the amounts can be reliably measured.

The company recognises revenue from the following major sources:

- Contractual rental income – IFRS 16; and
- Revenue from cost recoveries – IFRS 15.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Rental income is recognised and measured in accordance with IFRS 16 (2019: IAS 17) *Leases* and cost recoveries in terms of IFRS 15.

The group applies IFRS 15 to operating cost recoveries for services provided to the tenants of investment properties; recovery income is separately presented in the statements of profit or loss and other comprehensive income prospectively and from the adoption date for the current and prior year. Further, recovery income is allocated between the group's operating segments in order to depict how the nature, timing, amount and uncertainty of revenue and cash flows are affected by economic factors.

The group performed an assessment of IFRS 15 and concluded that the adoption of IFRS 15 had no material impact on either the timing or amount of the revenue of the group or company.

Revenue also comprises dividend income received from subsidiaries.

1.10. Property operating expenses

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

Notes to the annual financial statements continued

for the year ended 30 June 2020

1.11. Financing costs

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

1.12. Finance income

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

1.13. Income tax

As the group is a REIT, no provision has been 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 acquired in terms of the business combination which allowances will be recouped on the disposal of such assets.

1.14. Segmental reporting

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

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

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

- Retail;
- Industrial;
- Offices;
- Specialised;
- Residential; 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.

1.15. 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 of 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.

1.16. 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 16 *Leases*

IFRS 16 *Leases* is a new standard which replaces IAS 17 *Leases*, and introduces a single lessee accounting model. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases with the objective of ensuring that lessors and lessees provide relevant information that faithfully represents the lease transactions.

In terms of IFRS 16, a lease is a contract that conveys the right to use an identifiable asset for a period of time in exchange for a consideration. IFRS 16 states further that a finance lease is a lease that transfers substantially all of the risks and rewards incidental to ownership of an underlying asset albeit that title to the asset may or may not be transferable under such a lease. An operating lease is a lease other than a finance lease. In terms of IFRS 16, a lessee is to recognise the right-of-use asset and lease liability on their balance sheet.

The group adopted the standard for the first time in the 2020 consolidated annual financial statements and due to the fact that Heriot is the lessor in terms of its lease agreements, the adoption of the new standard has had no significant quantitative impact on the results for the year.

The group has complied with the additional disclosure requirements of IFRS 16 (refer to notes 19 and 30).

1.17. 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. None of these standards, amendments and interpretations are expected to have a material impact on the results of the group:

Standard/Interpretation	Effective date – years beginning on or after
IFRS 3 *Business Combinations* – Definition of a Business	1 January 2020
IFRS 3 *Business Combinations* – Reference to the Conceptual Framework	1 January 2022
IFRS 7 *Financial Instrument Disclosure* – Interest Rate Benchmark Reform	1 January 2020
IFRS 9 *Financial Instruments* – Interest Rate Benchmark Reform	1 January 2020
IFRS 9 *Financial Instruments* – Annual Improvements to IFRS Standards 2018 – 2020	1 January 2022
IFRS 10 *Consolidated Financial Statements* – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (amendments to IFRS 10 and IAS 28)	Effective date deferred indefinitely
IAS 1 *Presentation of Financial Statements* – Definition of material	1 January 2020
IAS 1 *Presentation of Financial Statements* – Classification of Liabilities as Current or Non-current	1 January 2022
IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* – Definition of material	1 January 2020
IAS 16 *Property, Plant and Equipment* – Proceeds before intended use	1 January 2022
IAS 28 *Investments in Associates and Joint Ventures* – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (amendments to IFRS 10 and IAS 28	Effective date deferred indefinitely
IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* – Onerous Contracts/Cost of Fulfilling a Contract	1 January 2022
IAS 39 *Financial Instruments Recognition and Measurement* – Interest Rate Benchmark Reform	1 January 2020

Notes to the annual financial statements continued

for the year ended 30 June 2020

	GROUP	
	2020 R'000	2019 R'000
2. Investment property		
Net carrying value		
Cost	**4 212 266**	4 262 616
Fair value surplus	**243 656**	349 938
	4 455 922	4 612 554
Movement for the period		
Investment properties at the beginning of the year	**4 612 554**	4 364 185
Acquisition and development of investment property	**75 600**	32 322
Transfer (to)/from property under development	**(77 979)**	190 773
Transfer to non-current assets held for sale	**(47 500)**	–
Change in fair value	**(106 282)**	23 401
Tenant installations	**(471)**	1 873
– Capitalised	**–**	2 307
– Amortised	**(471)**	(434)
Balance at the end of the year	**4 455 922**	4 612 554
Reconciliation to independent valuation		
Investment property at valuation	**4 455 922**	4 612 554
Straight-line rental income accrual	**(38 522)**	(25 679)
	4 417 400	4 586 875

The properties were valued by Peter Parfitt of Quadrant Properties Proprietary Limited who is a registered valuer in terms of section 19 of the Property Valuers Professional Act 47 of 2000. The properties were valued using the discounted cash flow method which method values the properties by discounting the cash flows of future income streams of the properties, taking into account expected rental and expense growth rates, vacancies and costs not recoverable from tenants. The discounted cash flow valuations are tested for reasonableness by benchmarking against recent comparable sales activity and available market surveys and comparing the discounted cash flow values to the capitalised cash flow values. The capitalised cash flow values are calculated by applying appropriate capitalisation rates to the future earnings potential of the properties. The capitalisation rates are dependent on a number of factors such as location, the condition of the property, lease covenants and current market conditions.

Inter-relationship between key unobservable inputs and fair value measurement

The fair value of investment properties would be affected by:

- change in expected market rental growth;
- change in expected expense growth;
- occupancy, vacancy and beneficial occupancy periods; and
- change in discount and capitalisation rates.

2. Investment property continued

	GROUP 2020 %	GROUP 2019 %
Inputs applied on average to the portfolio valuations are as follows:		
Capitalisation rates	**9,18**	8,69
Rental growth	**7,07**	7,57
Expense growth	**7,99**	8,73
Discount rate	**14,71**	14,64
Vacancy rate	**1,13**	0,59
The average capitalisation rates applied per sector were as follows:		
Retail	**9,05**	8,58
Industrial	**9,62**	8,51
Office	**9,46**	8,95
Specialised	**8,63**	8,25
Residential	**10,00**	9,50

Changes to inputs applied by the valuer in determining the valuations of investment property at 30 June 2020 can be attributed to both the COVID-19 pandemic and the overall deterioration of the South African economy over the past 12 months.

First mortgaged bonds have been registered over investment property valued at R4,248 billion (2019: R4,240 billion) as security for interest-bearing borrowings of R1,766 billion (2019: R1,625 billion).

	GROUP 2020 R'000	GROUP 2019 R'000
3. Straight-lining of rental income		
Balance at the beginning of the year	**(25 679)**	(19 085)
Arising during the year	**(12 843)**	(6 594)
Balance at the end of the year	**(38 522)**	(25 679)
4. Property under development		
Balance at the beginning of the year	**–**	106 863
Transfer from investment property	**77 979**	–
Development costs	**11 029**	78 782
Capitalised borrowing costs	**454**	5 128
Transfer to investment property	**–**	(190 773)
	89 462	–

Comprising a commercial property located in Mowbray, Cape Town that is to be redeveloped into residential units with ground floor retail.

Notes to the annual financial statements continued

for the year ended 30 June 2020

		GROUP	
		2020 R'000	2019 R' 000
5.	**Property, plant and equipment**		
	Property	**23 695**	23 691
	Cost	**25 226**	24 721
	Accumulated depreciation	**(1 531)**	(1 030)
	Computer equipment	**213**	52
	Cost	**400**	140
	Accumulated depreciation	**(187)**	(88)
	Motor vehicles	**196**	381
	Cost	**935**	935
	Accumulated depreciation	**(739)**	(554)
	Furniture, fittings and equipment	**1 899**	1 188
	Cost	**2 321**	1 338
	Accumulated depreciation	**(422)**	(150)
		26 003	25 312

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

		GROUP	
		2020 R'000	2019 R' 000
5.1	**Movement for the period**		
	Balance at the beginning of the year	**25 312**	25 373
	Additions	**1 748**	797
	Owner occupied property	**505**	–
	Computers	**260**	35
	Furniture, fittings and equipment	**983**	762
	Depreciation for the year	**(1 057)**	(858)
	Owner occupied property	**(501)**	(494)
	Computers	**(99)**	(41)
	Furniture, fittings and equipment	**(272)**	(72)
	Motor vehicles	**(185)**	(251)
		26 003	25 312

	Holding %	COMPANY Carrying amount 2020 R'000	COMPANY Carrying amount 2019 R'000
6. Investment in subsidiaries			
Bait Away Trading Proprietary Limited^	100	**25 452**	30 035
Beneficial Interest in Heriot Trust No. 1^	100	**93 354**	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
Fin Properties 107 Proprietary Limited^	100	**93 323**	95 323
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	**73 278**	102 925
Moditouch Proprietary Limited^	50	**17 904**	17 904
Phokeng Mall Proprietary Limited^	100	**132 155**	133 134
Terrace Drive Properties 34 Proprietary Limited^	100	**200 736**	200 736
Tiger Stripes Investments 31 Proprietary Limited^	100	**3 572**	6 158
		2 434 070	2 485 490
Movement for the year			
Balance at the beginning of the year		**2 485 490**	2 535 473
Impairment losses		**(51 420)**	(49 983)
Bait Away Trading Proprietary Limited		**(4 583)**	(16 752)
Beneficial Interest in Heriot Trust No. 1		**(6 305)**	–
Crosize Proprietary Limited		**(5 320)**	–
Fin Properties 107 Proprietary Limited		**(2 000)**	(26 901)
Heriot Properties West Proprietary Limited		**(29 647)**	–
Phokeng Mall Proprietary Limited		**(979)**	–
Tiger Stripes Investments 31 Proprietary Limited		**(2 586)**	(6 330)
		2 434 070	2 485 490

^ *Registered and operational in South Africa.*

* *Registered and operational in Namibia.*

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. The estimated recoverable amount of each subsidiary was calculated with reference to its value-in-use. As the investment properties owned by each subsidiary are fair valued at each reporting date, the net asset value of the subsidiary equates to its value-in-use.

Notes to the annual financial statements continued

for the year ended 30 June 2020

		GROUP	
		2020 R'000	2019 R'000
7.	**Investment in associate**		
	49,5% interest in Fixtrade 605 Proprietary Limited	**7 093**	7 427
	The associate owns a portfolio of townhouses based in Newcastle, KwaZulu-Natal. The property is held for rental income and capital appreciation. Heriot's interest in the associate is not material to the group.		
	The summarised aggregated financial information of the group's share in the associate is as follows:		
	Total comprehensive income/(loss)	**266**	(3 003)
	Aggregate carrying amount of the group's interest in the associate	**7 093**	7 427
	Movement for the year		
	Balance at the beginning of the year	**7 427**	10 430
	Equity-accounted results per the statement of comprehensive income	**(334)**	(3 003)
	Share of profit/(loss)	**266**	(3 003)
	Dividends received	**(600)**	–
	Balance at the end of the year	**7 093**	7 427

		GROUP		COMPANY	
		2020 R'000	2019 R'000	2020 R'000	2019 R'000
8.	**Financial assets**				
	Loans to participants of the employee share scheme (note 8.1)	**35 359**	35 130	**35 359**	35 130
	Loan to related party (note 8.2)	**45 621**	43 318	**–**	–
	Loan to subsidiaries (net of provision for impairment) (note 8.3)	**–**	–	**9 995**	35 487
		80 980	78 448	**45 354**	70 617
	Less: short-term portion	**(45 621)**	(43 318)	**(9 995)**	(35 487)
		35 359	35 130	**35 359**	35 130

8. Financial assets continued

	GROUP		COMPANY	
	2020 R'000	2019 R' 000	2020 R'000	2019 R' 000
Movement for the year:				
Loans to participants of the employee share scheme				
Balance at the beginning of the year	**35 130**	34 788	**35 130**	34 788
Loans repaid during the year	**(2 749)**	(2 722)	**(2 749)**	(2 722)
Interest received	**2 978**	3 064	**2 978**	3 064
Balance at the end of the year	**35 359**	35 130	**35 359**	35 130
Loan to related party				
Balance at the beginning of the year	**43 318**	77 760		
Advanced during the year	**7 043**	–		
Repaid during the year	**(4 740)**	(34 442)		
Balance at the end of the year	**45 621**	43 318		
Loan to subsidiaries				
Balance at the beginning of the year			**35 487**	344 125
Advanced during the year			**–**	2 301
Repaid during the year			**–**	(310 939)
ECL allowance for credit losses			**(25 492)**	–
Balance at the end of the year			**9 995**	35 487

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 of 8,48% for the year;
- If the interest payable on the loans exceeds the dividends in respect of the year 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 year for which such dividends are declared exceed the interest payable for such year, 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;
- 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; and
- At the reporting date, the gross carrying value of the loans to participants of the share scheme were assessed for recoverability. At that date, the market value of each Heriot share was R11,50, the net asset value was R11,07 per share while the carrying amount owed by each participant of the employee share scheme equated to R10,71. On the basis that the recoverable amount exceeds the gross carrying value of the loans, no impairment of the loans was deemed necessary.

Notes to the annual financial statements continued

for the year ended 30 June 2020

8. Financial assets continued

8.2 The loan to the related party is unsecured, bears interest at the group's average cost of borrowings of 8,48% per annum and is repayable on demand.

8.3 Loans to subsidiaries bear interest at variable rates and are repayable within 12 months of a demand for repayment by the company. The company has deferred its right to any repayment of a loan amounting to R25,5 million until the assets of the subsidiary, fairly valued, exceed its liabilities.

At the reporting date, the carrying value of each loan was assessed for recoverability and based on the estimated recoverable amount of the loan, the loans were impaired to the expected recoverable amount. Expected recoverability was calculated based on the borrowing entities' net asset values at the reporting date.

		2020	
	Basis of expected credit loss (ECL) assessment	Gross carrying value of loans R'000	Loss allowance R'000
Crosize Proprietary Limited	Lifetime ECL	28 533	(25 492)
Heriot Trust No. 1	12-month ECL	376	–
Heriot Trust No. 3	12-month ECL	200	–
HP10 Investments Proprietary Limited	12-month ECL	4 284	–
Terrace Drive Properties 34 Proprietary Limited	12-month ECL	2 094	–
		35 487	(25 492)
Reconciliation of loss allowances			
Balance at the beginning of the year		–	–
Increase in loss allowance recognised in profit and loss for the year		(25 492)	–
Balance at the end of the year		(25 492)	–

8.4 The expected credit loss impairment model has been applied to all financial assets. Where applicable and in terms of IFRS 9 *Financial Instruments*, assets have been impaired to net asset value at year end. The loss allowance for financial assets is calculated with reference to expected credit losses for the next 12 months where credit risk has remained unchanged from the last reporting date. Where there has been a significant change in risk, the loss allowance is calculated based on lifetime expected credit losses.

The maximum exposure to credit risk at the reporting date is the fair value of financial assets. Credit risk is assessed every six months and expected credit losses are adjusted accordingly.

9. Trade and other receivables

	GROUP		COMPANY	
	2020 R'000	2019 R' 000	2020 R'000	2019 R' 000
Financial instruments				
Gross trade receivables	**22 730**	2 182	**–**	–
COVID-19 rental relief	**(11 312)**	–	**–**	–
Trade receivables	**11 418**	2 182	**–**	–
ECL allowance for credit losses	**(2 621)**	(600)	**–**	–
	8 797	1 582	**–**	–
Municipal deposits	**7 161**	7 106	**–**	–
Deposit for property to be acquired	**4 000**	–	**–**	–
Management fees*	**6 122**	7 675	**–**	–
Other receivables**	**3 666**	9 716	**–**	–
Dividends from subsidiaries	**–**	–	**214 226**	207 726
Non-financial instruments				
Prepayments	**2 992**	5 266	**19**	17
Value added taxation	**–**	232	**–**	–
	32 738	31 577	**214 245**	207 743

* *Comprises fees and reimbursement of costs due for the management and development of a portfolio of properties in Zambia and the DRC.*

** *Other receivables includes an amount of R1,77 million owing by a shareholder, JCB Herring. The loan bears interest at the group's weighted average cost of capital, is unsecured and repayable by mutual agreement.*

In order to mitigate the risk of financial loss from defaults, the group mainly 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 year.

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 year. In addition to the loss allowance, trade receivables are written off when there is no reasonable expectation of recovery.

Notes to the annual financial statements continued

for the year ended 30 June 2020

9. Trade and other receivables continued

The loss allowance for trade receivables is measured in terms of IFRS 9 and is determined by applying the lifetime expected credit loss approach to trade receivables. These lifetime expected credit losses are estimated using a provision matrix, which is presented below. The provision matrix is formulated by making use of judgement, the profile of past payment and write-off experience, including a review of the last three months' collection data which has been directly affected by the COVID-19 pandemic, and forward-looking information such as the likelihood of default by the debtor and general economic conditions of the industry as at the reporting date.

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 2020 R'000	Loss allowance (lifetime expected credit loss) 2020 R'000	Estimated gross carrying value at default 2019 R'000	Loss allowance (lifetime expected credit loss) 2019 R'000
Not past due: 0% (2019: 0%)	7 261	–	1 106	–
30 days past due: 23% (2019: 0%)	2 006	(470)	183	–
60 days past due: 100% (2019: 0%)	618	(618)	167	–
More than 90 days: 100% (2019: 83%)	1 533	(1 533)	726	(600)
	11 418	(2 621)	2 182	(600)

	GROUP	
	30 June 2020 R'000	30 June 2019 R'000
Reconciliation of loss allowances		
Balance at the beginning of the year	(600)	(600)
Increase in loss allowance recognised in profit and loss for the year	(2 021)	–
Balance at the end of the year	(2 621)	(600)

Due to the effects of the COVID-19 pandemic and the resultant implementation of lockdown restrictions that prevented certain tenants from trading in compliance with government regulations, the group entered into agreements with tenants, on a case-by-case basis, in terms of which the group granted tenants COVID-19 relief on rentals for specific periods. The COVID-19 credit allowance has been deducted from the trade receivables balance at year end, before estimating the expected credit loss provision.

Shoprite Checkers and Mpact Limited are the group's only major customers with revenue of R44,747 million and R44,199 million respectively, equating to 10,8% and 10,7% of total revenue for the year under review (2019: 11,8% and 15,1 % respectively).

9. Trade and other receivables continued

The expected credit loss impairment model has been applied to other trade receivables. Where applicable and in terms of IFRS 9 *Financial Instruments*, other trade receivables have been impaired to net asset value at year end. The loss allowance is calculated with reference to expected credit losses for the next 12 months where credit risk has remained unchanged from the last reporting date. Where there has been a significant change in risk, the loss allowance is calculated based on lifetime expected credit losses.

The maximum exposure to credit risk at the reporting date is the fair value of other receivables. Credit risk is assessed every six months and expected credit losses are adjusted accordingly.

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
10. Cash and cash equivalents				
For purposes of the cash flow statement, cash and cash equivalents comprise:				
Bank balances	**86 258**	27 639	**4**	8

Cash is invested with Nedbank Limited and First National Bank Limited, a division of FirstRand Bank Limited. In terms of Moody's ratings, both banks are rated as Ba1 and as such, the risk of default is low.

	GROUP		COMPANY	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
11. Non-current assets held for sale				
Non-current assets held for sale	**47 500**	–	**–**	–

Investment properties reclassified as held for sale are properties that the directors have decided will be recovered through sale rather than through continuing use. At year end, this comprises an industrial property in Port Elizabeth that was sold for R47,5 million but for which transfer was pending at the reporting date.

Notes to the annual financial statements continued

for the year ended 30 June 2020

	GROUP 2020 R'000	GROUP 2019 R'000	COMPANY 2020 R'000	COMPANY 2019 R'000
12. 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

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 2020 R'000	GROUP 2019 R'000
13. Non-controlling interests			
Moditouch Proprietary Limited	50%	**18 733**	22 312
Heriot Properties International Proprietary Limited	10%	**22 944**	21 794
Hagley 3865 Proprietary Limited	45%	**(484)**	769
60 Adderley Proprietary Limited	40%	**3 951**	–
		45 144	44 875
Movement for the period			
Balance at the beginning of the year		**44 875**	46 400
Share of profits for the year		**5 348**	4 724
Distributable profits		**4 653**	2 870
Non-distributable profits		**695**	1 854
Dividends declared to minorities		**(5 079)**	(6 249)
Balance at the end of the year		**45 144**	44 875

13. Non-controlling interests continued

Moditouch Proprietary Limited

With effect from 5 June 2017, the group acquired a 50% equity interest in Moditouch Proprietary Limited, a company registered and operational in South Africa. Moditouch is controlled by Heriot by virtue of Heriot's right to hold the majority of director positions on the board.

	GROUP	
	30 June 2020 R'000	30 June 2019 R'000
Movement for the year		
Balance at the beginning of the year	**22 312**	23 893
Share of (losses)/profits for the year	**(334)**	1 829
Distributable profits	**3 166**	1 979
Non-distributable profits	**(3 500)**	(150)
Dividends declared to minorities	**(3 245)**	(3 410)
Balance at the end of the year	**18 733**	22 312

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"), a company registered and operational in South Africa. Heriot controls HPI by virtue of the voting rights held.

	GROUP	
	30 June 2020 R'000	30 June 2019 R'000
Movement for the year		
Balance at the beginning of the year	**21 794**	22 507
Share of profits for the year	**2 600**	2 126
Distributable profits	**1 422**	1 426
Non-distributable profits	**1 178**	700
Dividends declared to minorities	**(1 450)**	(2 839)
Balance at the end of the year	**22 944**	21 794

Notes to the annual financial statements continued

for the year ended 30 June 2020

13. Non-controlling interests continued

Hagley 3865 Proprietary Limited

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

	GROUP	
	30 June 2020 R'000	30 June 2019 R' 000
Movement for the year		
Balance at the beginning of the year	769	–
Share of profits for the year	(1 253)	769
Distributable profits	(250)	(535)
Non-distributable profits	(1 003)	1 304
Dividends declared to minorities	–	–
Balance at the end of the year	(484)	769

60 Adderley Proprietary Limited

With effect from 1 November 2018, the group acquired a 60% equity interest in 60 Adderley Proprietary Limited ("60 Adderley"), a shelf company registered and operational in South Africa, for no value. Heriot controls 60 Adderley by virtue of the voting rights held.

	GROUP	
	30 June 2020 R'000	30 June 2019 R' 000
Movement for the year		
Balance at the beginning of the year	–	–
Share of profits for the year	4 336	–
Distributable profits	316	–
Non-distributable profits	4 020	–
Dividends declared to minorities	(385)	–
Balance at the end of the year	3 951	–

	GROUP	
	2020 R'000	2019 R'000
14. Interest-bearing liabilities		
Nedbank Limited	**802 496**	740 851
Facility 1		
The interest only facility bears interest at 1,5% below the prime bank overdraft rate, is secured by first mortgage bonds over investment property valued at R2,007 billion and was repayable on 7 July 2020. Prior to year end, the facility has been refinanced by Nedbank Limited on the following terms:	**710 000**	710 000
• R460,0 million two-year facility bearing interest at a rate of 3 month JIBAR plus 155 bps, repayable on 1 July 2022; and		
• R325,0 million four-year facility bearing interest at a rate of 3 month JIBAR plus 169 bps, repayable on 1 July 2024.		
Facility 2		
The interest only facility bears interest at the prime bank overdraft rate, is secured by a first mortgage bond over investment property valued at R30,75 million and is repayable on 31 March 2022.	**30 846**	30 851
Facility 3		
The interest only facility bears interest at 0,5% below the prime bank overdraft rate, is secured by a first mortgage bond over investment property valued at R72,0 million and is repayable on 3 September 2024.	**61 650**	–
Standard Bank	**616 000**	536 128
Facility 1		
The interest only facility bears interest at a rate of prime less 1,52%.	**50 000**	50 000
Interest only facility bearing interest at a rate of 3 month JIBAR plus 1,73%.	**350 000**	350 000
The total facility of R400,0 million is repayable on 14 January 2022 and is secured by first covering mortgage bonds over investment property valued at R812,75 million.		
Facility 2		
The interest only facility bears interest at a rate of 3 month JIBAR plus 1,67%, is secured by a first covering mortgage bond over investment property valued at R171,3 million and is repayble on 11 December 2021.	**145 000**	65 128
Facility 3		
The interest only facility bears interest at a rate of 3 month JIBAR plus 180 bps, is secured by a first covering mortgage bond over investment property valued at R110,0 million and is repayable on 29 April 2023.	**71 000**	71 000

Notes to the annual financial statements continued

for the year ended 30 June 2020

	GROUP	
	2020 R'000	2019 R'000
14. Interest-bearing liabilities continued		
Rand Merchant Bank Limited	**132 185**	132 185
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 R690,0 million and is repayable on 31 October 2020. At year end, the company was in advanced discussions for the refinance of the facility and post year end, the group had agreed on terms for the refinance of the facility with RMB.		
Sanlam Capital Markets Proprietary Limited	**215 570**	215 570
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 R347,8 million and was repayable on 1 July 2020. Prior to the year end, the facility has been refinanced by Sanlam for a period of five years at a rate of 3 month JIBAR plus 180 bps. The facility is repayable on 3 August 2025.		
	1 766 251	1 624 734
Less: short-term portion of interest-bearing borrowings	**(132 185)**	(710 000)
	1 634 066	914 734

At the reporting date, the group had unutilised facilities of R108,9 million.

	GROUP	
	2020 R'000	2019 R'000
15. Derivative financial instrument		
Interest rate swap	**17 676**	6 304
Nominal value (R000)	**300 000**	300 000
Maturity	**27 Nov 2021**	27 Nov 2021
Fixed interest rate (%)	**7,68**	7,68
The derivative financial instrument comprises an interest rate swap for a notional value of R300,0 million at a fixed JIBAR interest rate of 7,68%. The fair value of the swap is obtained from the recognised derivative dealer that values the instrument by discounting future cash flows, while taking into account current market prices and conditions. The swap is classified as level 2 in terms of fair value hierarchy.		
Movement for the year		
Balance at the beginning of the year	**6 304**	813
Movement for the year	**11 372**	5 491
	17 676	6 304

	GROUP	
	2020 R'000	2019 R'000
16. Deferred taxation		
Capital allowances	**76 650**	76 342
Prepayments	**(13 226)**	(13 226)
	63 424	63 116
Movement for the year		
Balance at the beginning of the year	**63 116**	59 808
Per statement of comprehensive income	**308**	3 308
– Arising on capital allowances in current year	**308**	308
– Prepayments	**–**	751
– Adjustment in respect of previous year	**–**	2 249
Balance at the end of the year	**63 424**	63 116

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.

	COMPANY	
	2020 R'000	2019 R'000
17. Other financial liabilities		
Loans from subsidiaries		
Heriot Properties Proprietary Limited	**153 790**	151 636
Tembisa Mall Proprietary Limited	**630**	630
	154 420	152 266
Movement for the year		
Balance at the beginning of the year	**152 266**	38 301
Advanced during the year	**8 235**	622 336
Repaid during the year	**(6 081)**	(508 371)
Balance at the end of the year	**154 420**	152 266

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

Notes to the annual financial statements continued

for the year ended 30 June 2020

	GROUP		COMPANY	
	2020 R'000	2019 R' 000	2020 R'000	2019 R' 000
18. Trade and other payables				
Financial instruments				
Rent received in advance	**12 479**	13 384	**–**	–
Accrued interest	**8 504**	8 521	**–**	–
Accrued expenses	**25 794**	22 477	**10**	7
Tenant deposits	**8 334**	7 185	**–**	–
Other payables	**2 180**	1 223	**–**	–
Dividend payable to minorities	**5 519**	6 249	**–**	–
Non-financial instruments				
Value added taxation	**4 219**	5 354	**–**	–
	67 029	64 393	**10**	7
19. Contractual rental income				
Contractual rental income	**414 584**	384 176	**–**	–
Gross rent – IFRS 16	**425 896**	384 176	**–**	–
COVID-19 rental relief	**(11 312)**	–	**–**	–
Dividends received	**–**	–	**214 138**	206 194
Recoveries – IFRS 15	**106 347**	95 577	**–**	–
	520 931	479 753	**214 138**	206 194
Straight-line rental income accrual	**(12 843)**	(6 594)	**–**	–
	508 088	473 159	**214 138**	206 194

Due to the effects of the COVID-19 pandemic and the resultant implementation of lockdown restrictions that prevented certain tenants from trading in compliance with government regulations, the company entered into agreements with tenants, on a case-by-case basis, in terms of which the company granted tenants COVID-19 relief on rentals for specific periods. The COVID-19 credit allowance has been deducted from the trade receivables balance at year end before taking into the expected credit loss provision.

	GROUP		COMPANY	
	2020 R'000	2019 R' 000	2020 R'000	2019 R' 000
20. Impairment loss				
Impairment of investment in subsidiaries (refer note 6)	**–**	–	**51 420**	49 983
Impairment of loan to subsidiaries (refer note 8)	**–**	–	**25 492**	–
	–	–	**76 912**	49 983

	GROUP	
	2020 R'000	2019 R'000
21. Profit from operations		
Net operating profit includes the following items:		
Charges		
Audit fees	1 296	847
External auditor – audit fees	815	511
External auditor – components	197	124
External auditor – non-audit fees	284	212
Amortisation and depreciation	1 528	1 292
Management fees	961	556
Staff costs	29 081	26 420
22. Directors' emoluments		
Fees paid to non-executive directors		
SB Herring *(Chairman)**	325	425
SD Friend *(Chairman)**	–	225
SJ Blieden	325	350
TJ Cohen	325	350
R Lockhart-Ross	250	–
N Ngale	250	300
	1 475	1 650
Fees paid to executive directors		
RL Herring – *CEO*	4 842	4 368
Salaries and allowances	4 115	3 641
Bonus	727	727
JA Finn – *CFO*	4 200	4 610
Salaries and allowances	3 473	3 383
Bonus	727	1 227
	9 042	8 978

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

Notes to the annual financial statements continued

for the year ended 30 June 2020

	GROUP		COMPANY	
	2020 R'000	2019 R' 000	2020 R'000	2019 R' 000
23. Finance charges				
Secured borrowings	**144 584**	140 351	**–**	386
Other	**2 153**	2 104	**–**	–
Finance charges for the year	**146 737**	142 455	**–**	386
Capitalised	**(454)**	(5 128)	**–**	–
	146 283	137 327	**–**	386
24. Finance income				
Interest received – bank	**3 835**	4 100	**–**	–
Related party loan	**3 721**	6 456	**–**	–
Other	**3 432**	3 466	**3 074**	3 133
	10 988	14 022	**3 074**	3 133
25. Fair value adj ustments				
Unrealised (loss)/gain on revaluation of investment property	**(106 282)**	23 401	**–**	–
Unrealised loss on revaluation of interest rate swap	**(11 372)**	(5 491)	**–**	–
	(117 654)	17 910	**–**	–

	GROUP	
	2020 R'000	2019 R' 000
26. Taxation		
Normal taxation	**1 406**	2 150
Current	**1 406**	997
Underprovision in respect of prior period	**–**	1 153
Deferred	**308**	3 308
Current	**308**	1 059
Underprovision in respect of prior period	**–**	2 249
	1 714	5 458

	GROUP 2020 R'000	GROUP 2019 R' 000	COMPANY 2020 R'000	COMPANY 2019 R' 000
26. Taxation continued				
Reconciliation of taxation charge				
Profit before taxation	**89 771**	219 381	**138 132**	156 559
Tax at the applicable rate 28%	**25 136**	61 427	**38 677**	43 837
Taxation effect of:				
Qualifying distributions	**(61 635)**	(58 635)	**(60 212)**	(57 832)
Impairment loss	**–**	–	**21 535**	13 995
Fair value adjustments	**32 943**	(5 015)	**–**	–
Straight-line rental income accrual	**3 596**	1 846	**–**	–
Equity-accounted profits (net of taxation)	**94**	841	**–**	–
Adjustments to prior year	**–**	3 402	**–**	–
Namibian subsidiary	**415**	172	**–**	–
Tax rate differential	**186**	172	**–**	–
Withholding tax on interest	**229**	–	**–**	–
Non-deductible expenditure	**886**	202	**–**	–
Income in advance	**(244)**	547	**–**	–
Provision for doubtful debts	**452**	168	**–**	–
Unutilised tax losses	**71**	504	**–**	–
	1 714	5 458	**–**	–

	GROUP 2020 R'000	GROUP 2019 R' 000
27. Earnings and headline earnings		
Reconciliation of basic earnings to headline earnings		
Profit attributable to Heriot shareholders	**82 710**	209 199
Change in fair value of investment properties attributable to Heriot shareholders	**106 977**	(21 547)
Change in fair value of investment properties	**106 282**	(23 401)
Attributable to non-controlling shareholders	**695**	1 854
Headline earnings attributable to Heriot shareholders	**189 687**	187 652
Actual number of shares in issue*	**255 395 858**	255 395 858
Weighted average number of shares in issue	**255 395 858**	255 395 858
There are no dilutive instruments in issue.		
Basic earnings per share (cents)	**32,39**	81,91
Headline earnings per share (cents)	**74,27**	73,47

** Excludes 900 000 treasury shares.*

Notes to the annual financial statements continued

for the year ended 30 June 2020

28. Notes to the cash flow statement

28.1 The following convention applies to figures other than adj ustments:

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

	GROUP		COMPANY	
	2020 R'000	2019 R' 000	2020 R'000	2019 R' 000
28.2 Cash generated from operations				
Profit/(loss) before taxation	89 771	219 381	138 132	156 559
Adjusted for				
Non-cash items	128 782	(10 084)	(140 204)	46 919
Fair value adjustments	117 654	(17 910)	–	–
Impairment losses	–	–	76 912	49 983
Straight-line rental income accrual	12 843	6 594	–	–
Dividends receivable	–	–	(214 138)	–
Equity-accounted (losses)/ profits (net of taxation)	(266)	3 003	–	–
Interest received on loans to participants of the employee share scheme	(2 978)	(3 064)	(2 978)	(3 064)
Depreciation and amortisation	1 529	1 293	–	–
Finance charges	146 283	137 327	–	386
Finance income	(10 988)	(14 022)	(3 074)	(3 133)
Operating profit/(loss) before working capital changes	353 848	332 602	(5 146)	200 731
Working capital changes	2 204	(4 934)	207 639	(14 651)
Trade and other receivables	(1 161)	(7 412)	207 636	(12 427)
Dividend payable – non-cash	–	(2 844)	–	–
Trade and other payables	3 365	5 322	3	(2 224)
Cash generated from operations	356 052	327 668	202 493	186 080

28. Notes to the cash flow statement continued

28.3 Taxation paid

	GROUP 2020 R'000	GROUP 2019 R' 000	COMPANY 2020 R'000	COMPANY 2019 R' 000
Taxation in advance at the beginning of the year	1 093	2 918	–	–
Taxation for the year	(1 406)	(2 150)	–	–
Taxation in advance at the end of the year	(14)	(1 093)	–	–
Taxation paid during the year	(327)	(325)	–	–

28.4 Reconciliation of liabilities arising from financial activities

	GROUP Long-term borrowings	GROUP Short-term borrowings	GROUP Total
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
Proceeds	141 063	–	141 063
Capitalised interest	454	–	454
Reclassification	577 815	(577 815)	–
Balance as at 30 June 2020	1 634 066	132 185	1 766 251

	COMPANY Long-term borrowings	COMPANY Short-term borrowings	COMPANY Total
Balance as at 30 June 2018	–	399 746	399 746
Repayment	–	(399 746)	(399 746)
Balance as at 30 June 2019/2020	–	–	–

Notes to the annual financial statements continued

for the year ended 30 June 2020

29. Commitments

	GROUP	
	2020 R'000	2019 R' 000
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	**12 181**	10 625
– Due two to five years	**–**	–
	12 181	10 625

30. Minimum lease payments receivable

	GROUP	
	2020 R'000	2019 R' 000
Minimum lease payments comprises contractual rental income from investment properties and operating lease recoveries due in terms of signed lease agreements, not recognised in the annual financial statements.		
– Receivable within one year	**408 479**	403 583
– Receivable two to five years	**1 024 155**	976 551
– Receivable beyond five years	**340 430**	458 910
	1 773 064	1 839 044

31. 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	
	2020 R'000	2019 R' 000
Related party balances		
Amounts due from/(to) subsidiaries		
Crosize Proprietary Limited	**28 533**	28 533
Heriot Trust No. 1	**376**	376
Heriot Trust No. 3	**200**	200
HP10 Investments Proprietary Limited	**4 284**	4 284
Terrace Drive Properties 34 Proprietary Limited	**2 094**	2 094
Heriot Properties Proprietary Limited	**(153 790)**	(151 636)
Tembisa Mall Proprietary Limited	**(630)**	(630)

	GROUP	
	2020 R'000	2019 R' 000
Related party balances continued		
Amounts due from other related parties		
Steven Herring Consulting CC – common director	**45 621**	43 318
JCB Herring – shareholder	**1 771**	1 632
Related party transactions		
Interest received from Steven Herring Consulting CC	**3 581**	6 456
Interest received from JCB Herring	**140**	234

Key management

Compensation of key management is by way of salary and bonus only, details of which are disclosed in note 21.

Notes to the annual financial statements continued

for the year ended 30 June 2020

32. 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.

32.1 Liquidity risk

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

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

	Less than one year R'000	One to five years R'000	More than five years R'000	Total R'000
As at 30 June 2020				
Interest-bearing borrowings	132 185	1 418 496	215 570	1 766 251
Interest on borrowings	103 108	145 468	2 692	251 268
Derivative instrument	–	17 676	–	17 676
Trade and other payables	67 029	–	–	67 029
	302 322	1 581 640	218 262	2 102 224

32. Financial risk management continued

32.1 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 2019				
Interest-bearing borrowings	710 000	914 734	77 729	1 702 463
Interest on borrowings	144 739	129 350	–	274 089
Derivative instrument	–	6 304	–	6 304
Trade and other payables	64 393	–	–	64 393
	919 132	1 050 388	77 729	2 047 249

32.2 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 2020			
Financial assets			
Financial assets – non-current	35 359	–	35 359
Trade and other receivables	29 746	–	29 746
Financial assets – current	45 621	–	45 621
Cash and cash equivalents	86 258	–	86 258
	196 984	–	196 984
Financial liabilities			
Interest-bearing borrowings	1 766 251	–	1 766 251
Interest accrual on interest-bearing borrowings	251 268	–	251 268
Derivative instruments	–	17 676	17 676
Trade and other payables	62 810	–	62 810
	2 080 329	17 676	2 098 005

Notes to the annual financial statements continued

for the year ended 30 June 2020

32. Financial risk management continued

32.2 Categories of financial instruments continued

	GROUP		
	Loans and receivables 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

32.3 Interest rate risk

The group is exposed to interest rate risk through its variable rate cash balances and interest-bearing borrowings. The group reduces its exposure to changes in interest rates by fixing interest rates in respect of borrowings by entering into fixed interest rate and swap agreements. At the reporting date, 36,7% of borrowings have been fixed.

An increase/decrease of 1% in the prime interest rate for the year would have increased/decreased the interest expense by R10,54 million (2019: R9,92 million) in respect of the floating portion of the debt.

32. Financial risk management continued

32.4 Credit risk management

Credit risk is the risk of financial loss to the company 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 2020				
Financial assets	8	**80 980**	**–**	**80 980**
Trade and other receivables	9	**32 367**	**(2 621)**	**29 746**
Cash and cash equivalents	10	**86 258**	**–**	**86 258**
		199 605	**(2 621)**	**196 984**
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

	Note	COMPANY Gross carrying amount R'000	COMPANY Credit loss allowance R'000	COMPANY Amortised cost/fair value R'000
As at 30 June 2020				
Financial assets	8	**45 354**	**–**	**45 354**
Trade and other receivables	9	**214 226**	**–**	**214 226**
Cash and cash equivalents	10	**4**	**–**	**4**
		259 584	**–**	**259 584**
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

Notes to the annual financial statements continued

for the year ended 30 June 2020

32. Financial risk management continued

32.5 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 assets or liabilities;

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

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 2020				
Assets				
Investment properties	**4 417 400**	**–**	**–**	**4 417 400**
Property under development	**89 462**	**–**	**–**	**89 462**
Non-current assets held for sale	**47 500**	**–**	**–**	**47 500**
	4 554 362	**–**	**–**	**4 554 362**
Liabilities				
Derivative instrument	**17 676**	**–**	**17 676**	**–**
	17 676	**–**	**17 676**	**–**
As at 30 June 2019				
Assets				
Investment properties	4 586 875	–	–	4 586 875
	4 586 875	–	–	4 586 875
Liabilities				
Derivative instrument	6 304	–	6 304	–
	6 304	–	6 304	–

33. 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.

	GROUP	
	2020 R'000	2019 R'000
As at the reporting date, the group's loan-to-value ratio was:		
Property assets	**4 554 362**	4 586 875
Investment property	**4 417 400**	4 586 875
Property under development	**89 462**	–
Non-current assets held for sale	**47 500**	–
Interest-bearing borrowings net of cash	**1 679 993**	1 597 095
Loan-to-value (%)	**36,9**	34,8

34. Events after the balance sheet date

Subsequent to year end, the RMB facility of R132,2 million, which was reflected as a current liability at 30 June 2020, was refinanced for a period of two years, extending the repayment to 31 October 2022.

The group disposed of an industrial property in Port Elizabeth for R47,5 million. The property was revalued to its selling price and was disclosed as an asset held for sale in the statement of financial position at 30 June 2020.

The group further took transfer of:

- a commercial property in the Cape Town CBD, with a GLA of 4 931 m‡f or R42,0 million, equating to a yield of 9,4%; and
- a 50% undivided share of a small residential building in Illovo, Johannesburg at a yield of 12,0%.

The property, which will be redeveloped into 100 residential units at an all-in cost to Heriot of about R25,0 million will be held for rental income.

Notes to the annual financial statements continued

for the year ended 30 June 2020

35. Segmental analysis

For the year ended 30 June 2020	GROUP						
	Retail R'000	Industrial R'000	Office R'000	Specialised R'000	Residential R'000	Other R'000	Total R'000
GLA (m²)†	139 062	328 149	25 613	*	9 825	5 532	508 181
Rent	198 687	149 758	37 176	7 221	18 362	3 380	414 584
Recoveries	57 653	34 542	10 790	–	1 394	1 968	106 347
Straight-lining of rental income	(7 758)	(6 626)	1 304	(204)	441	–	(12 843)
Total revenue	248 582	177 674	49 270	7 017	20 197	5 348	508 088
Property expenses	(77 782)	(36 372)	(14 683)	(248)	(8 146)	(2 185)	(139 416)
Net income	170 800	141 302	34 587	6 769	12 051	3 163	368 672
Change in fair value	(24 626)	(51 113)	(10 963)	4 154	(23 734)	–	(106 282)
Profit from operations	146 174	90 189	23 624	10 923	(11 683)	3 163	262 390
Investment property	2 234 500	1 535 800	373 200	102 600	171 300	–	4 417 400
Non-current held for sale	–	47 500	–	–	–	–	47 500
Property under development	–	–	–	–	–	89 462	89 462
Property, plant and equipment	4	–	178	–	1 252	24 569	26 003
Trade and other receivables	10 279	6 689	636	–	1 877	13 257	32 738
Other assets	–	–	–	–	–	174 345	174 345
Total assets	2 244 783	1 589 989	374 014	102 600	174 429	301 633	4 787 448
Trade and other payables	31 768	7 801	2 992	3 705	5 606	15 157	67 029
Other liabilities	–	–	–	–	–	1 847 351	1 847 351
Total liabilities	31 768	7 801	2 992	3 705	5 606	1 862 508	1 914 380

* *The specialised property comprises 8 382 hectares 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.*

35. Segmental analysis continued

GROUP							
For the year ended 30 June 2019	Retail R'000	Industrial R'000	Office R'000	Specialised R'000	Residential R'000	Other R'000	Total R'000
GLA (m^2)	137 345	328 149	18 495	*	9 825	–	493 814
Rent	200 503	149 168	26 695	6 891	919	–	384 176
Recoveries	51 843	35 329	8 285	110	10	–	95 577
Straight-lining of rental income	2 809	(12 086)	2 812	(129)	–	–	(6 594)
Total revenue	255 155	172 411	37 792	6 872	929	–	473 159
Property expenses	(69 185)	(36 148)	(12 311)	(401)	(1 466)	–	(119 511)
Net income	185 970	136 263	25 481	6 471	(537)	–	353 648
Change in fair value	33 657	(5 869)	(3 918)	5 380	(5 849)	–	23 401
Profit from operations	219 627	130 394	21 563	11 851	(6 386)	–	377 049
Investment property	2 343 500	1 638 675	321 050	98 650	185 000	–	4 586 875
Property, plant and equipment	5	–	–	–	755	24 552	25 312
Trade and other receivables	7 366	3 351	1 687	–	435	18 738	31 577
Other assets	–	–	–	–	–	114 607	114 607
Total assets	2 350 871	1 642 026	322 737	98 650	186 190	157 897	4 758 371
Trade and other payables	33 702	6 020	1 908	3 639	3 187	15 937	64 393
Other liabilities	–	–	–	–	–	1 694 154	1 694 154
Total liabilities	33 702	6 020	1 908	3 639	3 187	1 710 091	1 758 547

* *The specialised property comprises 8 382 hectares 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 annual financial statements

for the year ended 30 June 2020

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 2020 R'000	For the year ended 30 June 2019 R'000
Contractual rental income and recoveries	**520 931**	479 753
Property expenses	**(139 416)**	(119 017)
Other income	**12 955**	7 670
Administrative and corporate costs	**(38 671)**	(33 539)
Net finance charges	**(135 295)**	(123 305)
Dividend from associates	**600**	
Taxation	**(1 406)**	(2 150)
Attributable to minorities	**(4 653)**	(2 869)
Distributable earnings attributable to equity holders of the company	**215 045**	206 543
Number of shares in issue at reporting date*	**255 395 858**	255 395 858
Distribution per share	**84,20**	80,87
Paid as to:		
Interim dividend per share	**40,75**	39,50
Final dividend per share	**43,45**	41,37

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

The directors are of the opinion that, as a REIT, distributable earnings per share is a more relevant measure of financial performance than earnings and headline earnings per share. Accordingly, in terms of paragraph 3.4(b)(vi) of the JSE Listings Requirements, Heriot has adopted distributable earnings per share as its measurement for trading statement purposes.

Shareholder analysis

Company: Heriot REIT Limited
Register date: 26 June 2020
Issued share capital: 256 295 858

	Number of shareholdings	%	Number of shares	%
Shareholder spread				
1 – 1 000 shares	30	60,00	4 827	0,00
1 001 – 10 000 shares	1	2,00	4 983	0,00
10 001 – 100 000 shares	6	12,00	600 000	0,23
100 001 – 1 000 000 shares	6	12,00	3 970 000	1,55
1 000 001 shares and over	7	14,00	251 716 048	98,22
Total	**50**	**100,00**	**256 295 858**	**100,00**
Distribution of shareholders				
Close Corporations	1	2,00	859	0,00
Individuals	41	82,00	11 040 351	4,31
Private companies	6	12,00	244 254 648	95,30
Treasury stock	1	2,00	900 000	0,35
Trust	1	2,00	100 000	0,04
Total	**50**	**100,00**	**256 295 858**	**100,00**
Public/non-public shareholders				
Non-public shareholders	5	10,00	236 631 220	92,33
Directors and associates of the company	4	8,00	235 731 220	91,98
Treasury stock	1	2,00	900 000	0,35
Public shareholders	45	90,00	19 664 638	7,67
Total	**50**	**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**")

Notice is hereby given to the shareholders of the company as at Friday, 23 October 2020 being the record date to receive the annual general meeting notice in terms of section 59(1)(a) of the Companies Act of South Africa ("Companies Act"), that the annual general meeting of the company will be held via a remote interactive electronic platform, Microsoft Teams, at 09:00 on Tuesday, 8 December 2020 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, 27 November 2020, 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 in the company's shares is therefore Tuesday, 24 November 2020.

Kindly note that in terms of section 63(1) of the Companies Act, meeting participants (including proxies) will be required to provide reasonably satisfactory identification before being entitled to participate in or vote at the annual general meeting. Forms of identification that will be accepted include original and valid identity documents, driver's licences and passports. Shareholders or their duly authorised proxies who wish to participate in the annual general meeting, must register to do so by lodging a completed Application Form for Electronic Participation by Friday, 4 December 2020.

ORDINARY RESOLUTIONS

Ordinary resolution 1: Adoption of the 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 2020, be and are hereby adopted."

Ordinary resolution 2: Re-election of Richard Lawrence Herring as a director

"Resolved that Richard Lawrence Herring who retires in terms of the company's Memorandum of Incorporation and who, being eligible, offers himself for re-election, be re-elected as a director and chief executive officer of the company."

Brief *curriculum vitae* in respect of Richard Lawrence Herring is set out on page 2 of the integrated report of which this notice forms part.

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

Ordinary resolution 3: Re-election of Nelson Abram Ngale as a director

"Resolved that Nelson Abram Ngale 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 director of the company."

A brief *curriculum vitae* of Nelson Abram Ngale is set out on page 3 of the integrated report of which this notice forms part.

The board has considered Nelson's qualifications and experience and recommends that Nelson be elected as aforesaid.

Ordinary resolution 4: Re-election of Trevor John Cohen as a director

"Resolved that Trevor John Cohen 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 Trevor John Cohen, is set out on page 3 of the integrated report of which this notice forms part.

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

Ordinary resolution 5: Reappointment of the auditor

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

The audit and risk committee has recommended BDO South Africa 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: Reappointment of the 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);

6.2 Trevor John Cohen subject to the approval of ordinary resolution 4 above; and

6.3 Robin Lockhart-Ross."

All members of the audit and risk committee are independent non-executive directors.

A brief *curriculum vitae* of Selwyn Joel Blieden, Trevor John Cohen and Robin Lockhart-Ross are included in the integrated report of which this notice forms part.

Ordinary resolution 7: Non-binding advisory votes on the remuneration policy and the remuneration implementation report

Ordinary resolution 7.1: Approval of the remuneration policy

"Resolved that, on the board's recommendation and 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 the 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, 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:

Notice of annual general meeting continued

- 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;
- 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";
- the total aggregate number of shares which may be issued are the subject of general issues for cash and 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:
  - 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
  - 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;
- 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
- 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."

In order for ordinary resolution number 8 to be adopted, and in terms of the JSE Listings Requirements, the support of at least 75% of the total number of votes exercisable by shareholders, present in person or by proxy, is required.

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:

- 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; and
- the general authority shall provide authorisation to the board of directors to repurchase on behalf of the company, shares in the issued share capital of the company as follows:
  - it will be limited, in any financial year of the company, to a maximum of 20% of the issued share capital of the company (or 10% of the issued share capital of the company where the repurchase is affected by a subsidiary) as at the date on which this special resolution is passed;
  - the repurchase of shares issued by the company may not be at a price greater than 10% above the weighted average of the market value at which Heriot shares of the same class traded on the JSE for the five business days immediately preceding the date on which the repurchase of shares is effected;
  - 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;
  - an announcement will be published as soon as the company or any of its subsidiaries has repurchased ordinary shares constituting, on a cumulative basis, 3% of the number of ordinary shares in issue prior to the repurchase pursuant to which the aforesaid 3% threshold was reached (and for each 3% in aggregate of the initial number of that class acquired thereafter). Such announcement must contain full details of such repurchases;

  - the company (or any subsidiary) must be authorised to do so in terms of its Memorandum of Incorporation;
  - at any point in time, the company may only appoint one agent to effect any repurchase(s) on the company's behalf; and
  - 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.
- 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.
- A resolution has been passed by the board of the company or its subsidiaries authorising the repurchase, and the company has passed the solvency and liquidity test as set out in section 4 of the Companies Act, and that there have been no material changes to the financial position of the company since the application of the solvency and liquidity test by the board."

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

- the company and the group will be able to meet their obligations 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 "shareholder analysis" section in Heriot's 2020 audited annual financial statements (page 85).
- Share capital of the company – see note 12 on page 62 in the audited annual financial statements.

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.

Reason for 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.

Notice of annual general meeting continued

Directors' intention regarding the general authority to repurchase the company's shares

The directors have no specific intention, at present, for the company to repurchase any of its securities but consider that such a general authority should be put in place should an opportunity present itself to do so during the year and which is in the best interests of the company and its shareholders.

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 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.

Special resolution 3: Approval of remuneration payable to non-executive directors

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

Position	Fees
Chairman of the board	R325 000 per annum
Non-executive director	R300 000 per annum
Audit and risk committee (including chairman)	R25 000 per meeting
Social and ethics committee (including chairman)	R25 000 per meeting
Remuneration and nomination committee (including chairman)	R25 000 per meeting
Investment committee (including chairman)	R25 000 per meeting

The above remuneration is exclusive of value added taxation which will be added by directors in terms of current vat registration, if applicable.

Reason for special resolution 3

The reason for this special resolution 3 is to obtain shareholder approval, by way of special resolution, in accordance with section 66(9) of the Companies Act, for the payment by the company of remuneration to the non-executive directors of the company for their services as non-executive directors for the ensuing financial year.

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 8, (and special resolutions 1 and 3)."

In order for:

- each of ordinary resolutions 1 to 7 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;
- 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

- each of special resolutions 1, 2 and 3 to be adopted, the support of at least 75% of the total number of votes exercisable by shareholders, present in person or by proxy, is required.

QU ORUM

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.

ELECTRONIC PARTICIPATION

The company's Memorandum of Incorporation authorises the conduct of shareholders' meetings entirely by electronic communication as does section 63(2)(a) of the Companies Act. In terms of section 61(10) of the Companies Act, every shareholders' meeting of a public company must be reasonably accessible within South Africa for electronic participation by shareholders.

Shareholders or their duly appointed proxies who wish to participate in the annual general meeting are required to complete the Electronic Participation Application Form available immediately after the proxy form on page 93 and email same to the company's transfer secretaries at roxy@computershare.co.za and to craig.laidlaw@computershare.co.za as soon as possible, but in any event by no later than Friday, 4 December 2020.

Shareholders or their duly appointed proxies are required to provide satisfactory identification before being entitled to participate in the annual general meeting.

Upon receiving a completed Application Form for Electronic Participation, the company's Transfer Secretaries will follow a verification process to verify each applicant's entitlement to participate in and/or vote at the annual general meeting. The company's transfer secretaries will provide the company with the nominated email address of each verified shareholder or their duly appointed proxy to enable the company to forward them a Microsoft Teams meeting invitation required to access the annual general meeting.

Fully verified shareholders or their duly appointed proxies who have applied to participate electronically in the annual general meeting are requested by no later than 08:55 on Tuesday, 8 December 2020 to click on the "Join Microsoft Teams Meeting" link to be provided by Heriot's company secretary or by the secretarial office, whose admission to the meeting will be controlled by the company secretary/ secretarial office.

Participants will be liable for their own network charges in relation to electronic participation in the annual general meeting. Any such charges will not be for the account of the company's transfer secretaries or Heriot who will also not be held accountable in the case of loss of network connectivity or other network failure due to insufficient airtime, internet connectivity, internet bandwidth and/or power outages which prevents any such shareholder or their proxy from participating in and /or voting at the annual general meeting.

PROXIES

For an ordinary resolution to be approved by the shareholders, it must be supported by more than 50% of the voting rights exercised on the resolution. For a special resolution to be approved by the shareholders, it must be supported by at least 75% of the voting rights exercised on the resolution.

Voting will be via a poll; every shareholder of the company shall have one vote for every share held in the company by such shareholder.

A shareholder entitled to participate in and vote at the annual general meeting is entitled to appoint a proxy or proxies to electronically participate, speak and vote in his/ her stead. A proxy need not be a shareholder of the company.

The electronic platform (Microsoft Teams) to be utilised to host the annual general meeting does not provide for electronic voting during the meeting.

Accordingly, shareholders are strongly encouraged to submit votes by proxy in advance of the annual general meeting, by completing

Notice of annual general meeting continued

the Form of Proxy and lodging this form with the company's transfer secretaries by no later than Friday, 4 December 2020 by:

- delivery to Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank; or
- email to proxy@computershare.co.za.

Any forms of proxy not submitted by this time can still be lodged by email to proxy@computershare.co.za and to craig.laidlaw@computershare.co.za prior to the commencement of the meeting.

Shareholders are reminded that they are still able to vote normally through proxy submission, despite deciding to participate either electronically or not at all in the annual general meeting.

Dematerialised shareholders without 'own name' registration

Dematerialised shareholders, other than those with ' ownname' registration, who wish to participate in the annual general meeting, should instruct their Central Securities Depository Participant ("CSDP") or broker to issue them with the necessary letter of representation to participate in the annual general meeting, in the manner stipulated in the relevant custody agreement. The letter of representation will need to be submitted together with the completed Electronic Participation Application Form to the company's transfer secretaries and to Heriot in the manner and within the timeframe described above under the section titled "Application Form for Electronic Participation."

If these shareholders do not wish to participate in the annual general meeting in person, they must provide the CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker.

Certificated shareholders and dematerialised shareholders with "own name" registration

Those certificated shareholders and dematerialised shareholders with "own name" registration, who wish to participate in the annual general meeting (either in person or represented by proxy), must submit a completed Electronic Participation Application Form to the company's transfer secretaries and to Heriot in the manner and within the timeframe described above under the section titled "Application Form for Electronic Participation".

By order of the board

CIS Company Secretaries Proprietary Limited
Company secretary

Johannesburg
29 October 2020

Form of proxy

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**”)

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 09:00 on Tuesday, 8 December 2020 (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 via a remote interactive electronic platform, Microsoft Teams.

Dematerialised shareholders holding shares in the company other than with “own name” registration, who wish to attend the annual general meeting must inform their CSDP or broker of their intention to attend the annual general meeting and request their CSDP or broker to issue them with the relevant letter of representation to attend the annual general meeting in person or by proxy and vote. If they do not wish to attend the annual general meeting in person or by proxy, they must provide their CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker. **These shareholders must not use this form of proxy.**

Each shareholder is entitled to appoint one or more proxies (who need not be a shareholder of the company) to attend, speak and vote in place of that shareholder at the annual general meeting. A proxy need not be a shareholder of the company.

I/We ______________________________ (names in block letters)

of ______________________________ (address in block letters)

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

1. ______________________________ or failing him/her

2. ______________________________ 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 via a remote interactive electronic platform Microsoft Teams, at 09:00 on Tuesday, 8 December 2020, 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 the annual financial statements			
Ordinary resolution no. 2: Re-election of Richard Lawrence Herring as a director of the company			
Ordinary resolution no. 3: Re-election of Nelson Abram Ngale as a director of the company			
Ordinary resolution no. 4: Re-election of Trevor John Cohen as director of the company			
Ordinary resolution no. 5: Reappointment of the auditor			
Ordinary resolution no. 6: Reappointment of the members of the audit and risk committee:			
6.1 Selwyn Joel Blieden *(chairman)*			
6.2 Trevor John Cohen			
6.3 Robin Lockhart-Ross			
Ordinary resolution no. 7: Approval of the remuneration policy and the remuneration implementation report			
7.1 Approval of the remuneration policy			
7.2 Approval of the remuneration implementation report			
Ordinary resolution no. 8: General authority to issue shares for cash			
Special resolution no.1: General authority to repurchase shares			
Special resolution no.2: Financial assistance to related or inter-related parties			
Special resolution no.3: Approval of remuneration payable to non-executive directors			
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 the notes on the reverse side hereof.

Signed at ______________________ on the __________ day of ______________________ 2020

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, 27 November 2020, 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 Friday, 4 December 2020 to allow for processing of the proxy forms. Alternatively, the form of proxy may be handed to the chairman of the annual general meeting at any time prior to the commencement of the annual general meeting or prior to voting on any resolution proposed at the annual general meeting.

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

8. The completion and lodging of this form of proxy will not preclude the relevant Heriot shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such Heriot shareholder wish to do so. In addition to the 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.

Application Form for Electronic Participation at the 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**")

ANNUAL GENERAL MEETING

Capitalised terms which are not defined herein shall bear the meanings assigned in the notice of annual general meeting to which this form is attached and forms part.

Instructions

Shareholders or their proxies, have the right, as provided for in the company's Memorandum of Incorporation and the Companies Act, to participate in the annual general meeting by way of electronic communication.

Shareholders or their duly appointed proxies who wish to participate in the annual general meeting must complete this application form and email it (together with the relevant supporting documents referred to below) to the company's transfer secretaries at proxy@computershare.co.za and to the company at craig.laidlaw@computershare.co.za as soon as possible, but in any event by no later than Friday, 4 December 2020.

Upon receiving a completed Electronic Participation Application Form, the company's transfer secretaries will follow a verification process to verify each applicant's entitlement to participate in the annual general meeting. The company's transfer secretaries will provide the company with the email address of each verified shareholder or their duly appointed proxy (each "a participant") to enable the company to forward the participant a Microsoft Teams meeting invitation required to access the annual general meeting.

Heriot will send each participant a Microsoft Teams meeting invitation with a link to "Join the Microsoft Teams Meeting" on receipt of the Electronic Participation Application, but in any event before the annual general meeting on Tuesday, 8 December 2020, to enable participants to link up and participate electronically in the annual general meeting. This link will be sent to the email address nominated by the participant in the following table.

Please note

The electronic platform to be utilised for the annual general meeting does not provide for electronic voting during the meeting. Accordingly, shareholders are strongly encouraged to submit votes by proxy in advance of the annual general meeting, by completing the Form of Proxy and lodging the completed proxy form together with this Electronic Participation Application Form with the company's transfer secretaries.

Participants will be liable for their own network charges in relation to electronic participation in and/or voting at the annual general meeting. Any such charges will not be for the account of the company's transfer secretaries or Heriot who will also not be held accountable in the case of loss of network connectivity or other network failure due to insufficient airtime, internet connectivity, internet bandwidth and/or power outages which prevents any such participant from participating in and/or voting at the annual general meeting.

By signing this application form, the participant indemnifies and holds the company harmless against any loss, injury, damage, penalty or claim arising in any way from the use of the telecommunication lines to participate in the annual general meeting or any interruption in the ability of the participant to participate in the annual general meeting via electronic communication, whether or not the problem is caused by any act or omission on the part of the participant or anyone else, including, without limitation, the company and its employees.

Full name of shareholder

Identity or registration number of shareholder

Full name of authorised representative (if applicable)

Identity number of authorised representative

Email address

Note: This email address will be used by the company to share the Microsoft Teams meeting invitation required to access the annual general meeting electronically.

Cell phone number

Telephone number, including dialling codes

Note: The electronic platform to be utilised for the annual general meeting does not provide for electronic voting during the meeting. Accordingly, shareholders are strongly encouraged to submit votes by proxy in advance of the annual general meeting, by completing the proxy form found on page 93.

Indicate (by marking with an "X") whether:

☐ votes will be submitted by proxy (in which case, please enclose the duly completed proxy form with this form); or

By signing this application form, I consent to the processing of my personal information above for the purpose of participating in Heriot's annual general meeting.

Signed at on 2020

Signed

Documents required to be attached to this application form

1. In order to exercise their voting rights at the annual general meeting, shareholders who choose to participate electronically may appoint a proxy, which proxy may participate in the annual general meeting, provided that a duly completed proxy form has been submitted in accordance with the instructions on that form, and as envisaged in the notice of the annual general meeting.

2. Documentary evidence establishing the authority of the named person, including any person acting in a representative capacity, who is to participate in the annual general meeting, must be attached to this application.

3. A certified copy of the valid identity document/passport of the person attending the annual general meeting by electronic participation, including any person acting in a representative capacity, must be attached to this application.

Applications to participate by electronic communication will only be considered if this application form is completed in full, signed by the shareholder, its proxy or representative, and delivered as detailed above. The company may in its sole discretion accept any incomplete application forms.

Broad-based economic empowerment compliance certificate

B-BBEE COMMISSION

a member of the dti group

Broad-Based Black Economic Empowerment Commission

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 Boulevard Melrose, Johannesburg, 2196
Telephone Number	+27 11 684 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 Proprietary Limited
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		0.00
Management Control	e.g. 19 points		0.00
Skills Development	e.g. 20 points		0.00
Enterprise and Supplier Development	e.g. 40 points		10.84
Socio-Economic Development	e.g. 5 points		0.00
Total Score	e.g. 109 points	0.00	16.73
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 Boulevard
Melrose
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: Attached

3. Entity Annual Turnover: **R** 520,931,000

4. Sign-off and Date

Signature

21/10/2020

Date

Shareholders' diary

Financial year end	30 June
Annual general meeting	Tuesday, 8 December 2020
Integrated report released	Friday, 30 October 2020

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
Craig Laidlaw LLB ACIS
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 *(Chairman)**
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)
6th Floor, 1 Park Lane, Wierda Valley
Sandton 2196
(PO Box 522606, Saxonwold 2132)

Designated advisor
Java Capital Trustees and Sponsors Proprietary Limited
(Registration number: 2006/005780/07)
6th Floor, 1 Park Lane, Wierda Valley
Sandton 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