



**INTEGRATED  
REPORT 2021**

for the year ended 30 June

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# About this report

This integrated report presents details of the financial and operational performance of Heriot together with an overview of its governance and business practices. It further includes a range of financial and non-financial disclosures and performance measures that will enable stakeholders to assess the value created for the year ended 30 June 2021 and to assess the group's ability to create and sustain value in the future.

## Assurance and reporting principles

The financial information provided in the consolidated annual financial statements presented on pages 48 to 93 has been prepared in accordance with International Financial Reporting Standards ("IFRS"), the JSE Listings Requirements, Financial Pronouncements as issued by the Financial Reporting Council and the Companies Act. The requirements of King IV Report on Corporate Governance for South Africa, 2016™ (King IV™) were taken into consideration during the compilation of this report. Our independent external auditor, BDO South Africa Incorporated, has provided assurance on the presentation of the annual financial statements and their report can be viewed on pages 44 to 47.

## Materiality

In determining the content and disclosures contained in this integrated report, materiality assessments have been applied to ensure that the report is both concise and relevant to Heriot's stakeholders. The integrated report addresses all reasonable material matters that may have a significant impact on the revenue and profitability of the business and on our ability to create value for our stakeholders over time.

## 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.

## Board responsibility statement

Heriot continues to develop and apply a combined assurance model, providing management and the board with confidence regarding the information disclosed. The group strives to achieve high standards in all disclosures and management reviews and, with the assistance of the audit and risk committee, the board recognises its responsibility to ensure the integrity and accuracy of the integrated report. The audit and risk committee's report on pages 38 and 39 provides an overview of the steps taken to optimise assurance within the group. After thorough review and consultation, the board has applied its judgement and, in its opinion, this integrated report has been presented in accordance with the International Framework, addresses all material matters and fairly presents the performance of the group for the year under review.

The board authorised the publication of the integrated report on 29 October 2021.

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**44** investment properties  
valued at **R4,54** billion

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Net asset value  
**R11,43** per share

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**425 602 m<sup>2</sup>** GLA\*

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Loan-to-value **38,8%**

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Overall vacancy **2,1%**

---

Distributable income payout  
ratio **100%**

---

Distributable earnings growth  
**7,7%**

---

Total dividend **90,72** cents  
per share

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Average cost of borrowings  
**6,32%**

# Heriot

at a glance

Heriot, a property holding and investment company listed in the “Diversified REITs” sector on the Alternative Exchange of the JSE, is invested in a diversified portfolio of properties valued at R4 647 billion, with a focus on retail assets in non-metropolitan areas.

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 purposes of generating secure and escalating net rental income streams.

\* GLA: gross leasable area.



# Directorate

## Executive directors



**Richard Lawrence Herring (49)**  
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 (57)**  
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 Rebois 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 Bernard Herring (50)**  
Non-executive chairman  
Undergraduate degree in Marketing  
(University of Johannesburg), Masters of  
Business Administration –  
Heriot-Watt University

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

### Committee member



**Selwyn Joel Blieden (49)**  
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



**Trevor John Cohen (79)**  
Independent non-executive director  
*BCom, LLB*

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

#### Committee member



**Nelson Abram Ngale (59)**  
Independent non-executive director

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

#### Committee member



**Robin Lockhart-Ross (63)**  
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 Deloitte) 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 ClB: 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 ClB 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

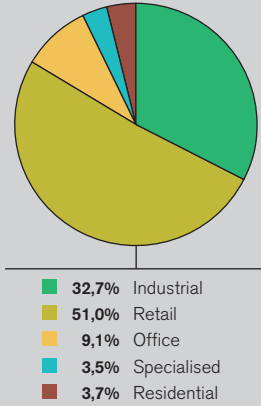
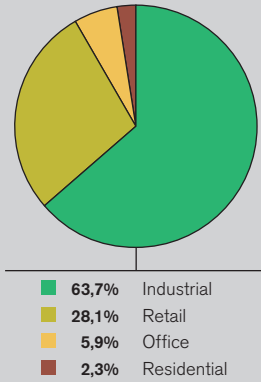
# Portfolio review

Property	Address
<b>Retail</b>	
Tsakane*	Modjadji and Malandela Streets, Tsakane, Brakpan, Gauteng
Tembisa	Cnr Andrew Mapheto Drive and Isimuku Road, Tembisa, Gauteng
Phokeng Mall	Sun City Main Road, Phokeng, North-West Province
Shoprite Fishhoek	54 Main Road, Fishhoek, Western Cape
Shoprite Sea Point	Main Road, The Towers, Sea Point, Cape Town, Western Cape
Score Itsoeng	President Mangope Drive, Itsoeng, North-West Province
Siyabuswa Mall	Bongimfundo Street, Siyabuswa, Mpumalanga
Burgersfort Mall	Cnr Dirk Winterbach and Mpumula Street, Burgersfort, Limpopo
Shoprite Athlone	Cnr Birchwood and Cornhill Street, Athlone, Western Cape
Shoprite Kempton Park	Cnr West Street and Oak Avenues, Kempton Park, Johannesburg, Gauteng
Shoprite Rustenburg	10 Kroep Street, Ou Dorp, Rustenburg, North-West Province
<b>Total retail</b>	
<b>Industrial</b>	
Voltex Cleveland	11 Cleveland Road, Cleveland Ext 5, Johannesburg, Gauteng
Hermans (Supergroup) Midrand	875 and 876 Freight Road, Louwlandia, Centurion, Gauteng
Masscash Denver	65 Mimetes Avenue, Denver, Johannesburg, Gauteng
Mpact Pinetown	17 Oppenheimer Street, Pinetown, KwaZulu-Natal
Mpact Epping	Lossack Street, Epping Ext 2, Cape Town, Western Cape
Mpact Nelspruit	13 Heyneke Street, Nelspruit, Mpumalanga
Mpact Kuilsriver	40 Fabriek Street, Kuilsriver, Western Cape
Mpact Brakpan	1 Molecule Road, Vulcania, Brakpan, Gauteng
Mpact Wadeville	Cnr Moore/Dekema and Lantern Road, 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, Kleine Kuppe, Windhoek, Namibia
Imperial Bloemfontein*	19 Hoof Avenue, Estoire, Bloemfontein, Free State
Imperial Goodwood*	239 to 283 Voortrekker Road, Goodwood, Cape Town
Imperial Mount Edgecombe*	27 Siphosethu Road, Mount Edgecomb, Durban, KwaZulu-Natal
Hagley	Nooiensfontein Road, Hagley, Cape Town, Western Cape
<b>Total industrial</b>	

\* Heriot owns a 50% undivided share in this property. The table above includes Heriot's 50% share in both the GLA and value of the property.

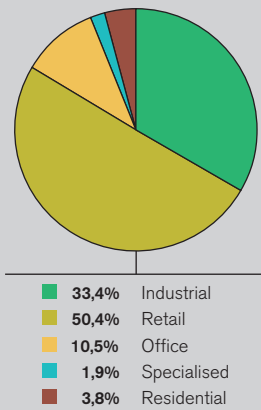
GLA m <sup>2</sup>	Average rent per m <sup>2</sup>	Vacancy m <sup>2</sup>	Valuation R'000
19 684	138,52	202	421 000
25 014	205,02	151	715 000
16 918	129,07	741	212 000
3 497	133,11	–	52 500
2 638	156,13	–	56 400
1 500	67,35	10	5 100
16 257	151,37	93	331 000
15 079	180,44	–	307 000
3 832	99,42	850	48 000
6 799	50,15	–	51 000
8 161	100,80	–	113 000
<b>119 379</b>	<b>148,63</b>	<b>2 047</b>	<b>2 312 000</b>
8 966	27,72	–	32 000
3 069	142,60	–	49 500
34 100	43,63	–	181 500
23 867	47,49	–	120 100
28 894	39,68	–	139 800
11 357	51,17	–	77 000
20 409	30,51	–	80 000
24 936	19,72	–	58 400
23 000	49,79	–	142 000
24 911	39,10	3 500	138 750
18 605	40,77	–	110 000
6 635	49,48	–	45 700
13 500	49,04	–	96 000
8 953	63,43	–	85 200
2 000	59,88	–	14 250
9 068	149,38	–	74 000
8 086	14,00	500	37 500
<b>270 356</b>	<b>45,03</b>	<b>4 000</b>	<b>1 481 700</b>

Value


Total GLA (m<sup>2</sup>)


The specialised property comprises 8,382 hectares of industrial farms and the inclusion of this in the analysis by GLA (m<sup>2</sup>) would not provide meaningful analysis. The specialised property, measured in hectares, has been analysed separately above.

Total gross rental



## Portfolio review continued

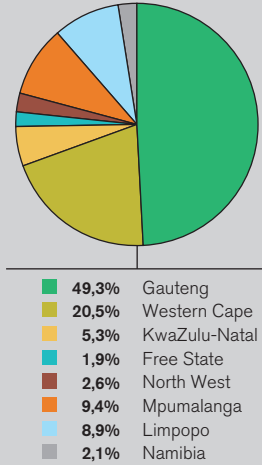
Property	Address
<b>Office</b>	
Super Group	27 Impala Road, Chiselhurst, Sandton, Gauteng
132 Adderley	132 Adderley street, Cape Town, Western Cape
Melrose Arch – Unit 9a	Unit 9a, 1st floor, 3 Melrose Boulevard, Melrose Arch, Johannesburg, Gauteng
Melrose Arch 4th floor	4th Floor, 3 Melrose Boulevard, Melrose Arch, Johannesburg, Gauteng
Wynberg Mews	1 Brodie Road, Wynberg, Cape Town, Western Cape
Hyundai*	Cnr Lucas and Norman Road, Bedfordview, Johannesburg, Gauteng
Europcar*	16 Ernest Oppenheimer Avenue, Bruma, Johannesburg, Gauteng
Renault*	10/12 Ernest Oppenheimer Street, Bruma, Johannesburg, Gauteng
<b>Total office</b>	
<b>Specialised – paper plantations</b>	
Lions Glen/Ihlati/Geluk/ Gemsbokfontein	Lions Glen – North-West Province 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
<b>Total specialised</b>	
<b>Residential</b>	
The Heriot	2 Adderley Street, Cape Town, Western Cape
<b>Total residential</b>	
<b>Investment property</b>	
<b>Non-current assets held for sale</b>	
Imperial Kimberley*	Cnr Phkamile Mabija and Hull Streets, Kimberley, Northern Cape
<b>Total non-current assets held for sale</b>	
<b>Total investment property</b>	
* Heriot owns a 50% undivided share in this property. The table above includes Heriot's 50% share in both the GLA and value of the property.	
^ 8,382 ha <sup>2</sup> of paper plantations not included in total GLA.	
<b>Other</b>	
Property under development	Cnr Main Road and Rhodes Avenue, Rosebank, Mowbray, Western Cape
Property under development	13 Corlett Drive, Illovo, Johannesburg, Gauteng
Owner occupied	Suite 1, 3 Melrose Boulevard, Melrose Arch, Johannesburg, Gauteng
<b>Total owner occupied</b>	
<b>Total property portfolio</b>	

Average annualised property portfolio yield 8,25%.

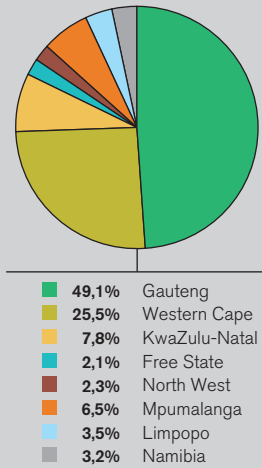


GLA m <sup>2</sup>	Average rent per m <sup>2</sup>	Vacancy m <sup>2</sup>	Valuation R'000
3 702	150,52	–	106 000
4 946	80,97	1 169	49 000
309	259,37	–	9 500
3 094	193,45	998	83 800
7 118	116,56	476	70 000
3 025	142,82	–	54 500
1 383	137,84	–	22 200
1 287	101,85	–	15 750
24 864	129,50	2 643	410 750
^	R66,26/ha	–	96 000
^	R163,14/ha	–	30 500
^	R80,12/ha	–	14 600
^	R71,04/ha	–	17 800
	<b>R71,79/ha</b>	–	<b>158 900</b>
9 825	210,86	581	168 000
9 825	210,86	581	168 000
424 424	81,22	9 271	4 531 350
1 178	71,50	–	6 500
1 178	71,50	–	6 500
425 602	81,19	9 271	4 537 850
5 532	–	–	91 264
2 690	–	–	17 978
717	–	–	23 190
8 939	–	–	132 432
434 541	–	9 271	4 670 282

Value

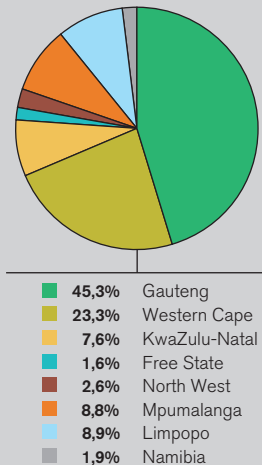


Total GLA (m<sup>2</sup>)



The specialised property comprises 8,382 hectares of industrial farms and the inclusion of this in the analysis by GLA (m<sup>2</sup>) would not provide meaningful analysis. The specialised property, measured in hectares, has been analysed separately above.

Total gross rental



## Portfolio review continued

### Tenant analysis profile

Tenant profile	Based on rental %	Based on GLA (m <sup>2</sup> )* %	Based on GLA (ha) %
A	73,4	79,3	100,0
B	12,6	8,6	–
C	14,0	10,0	–
Vacant	–	2,1	–
<b>Total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

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.

### Lease expiry profile

	Total GLA (ha)* %	Total GLA (m <sup>2</sup> )* %	Total gross rental %
<b>Total portfolio</b>			
Vacant	–	2,1	–
Monthly	–	–	–
June 2022	–	7,0	9,3
June 2023	–	24,3	27,7
June 2024	–	18,3	19,5
June 2025	10,1	16,7	13,9
June 2026	19,3	10,2	14,0
> June 2027	75,6	21,4	16,6
<b>Total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

\* The specialised property comprises 8,382 hectares of industrial farms and the inclusion of this in the analysis by GLA (m<sup>2</sup>) would not provide meaningful analysis. The specialised property, measured in hectares, has been analysed separately above.

## Lease expiry profile continued

	Total GLA (m <sup>2</sup> ) %	Total gross rental %
<b>Industrial</b>		
Vacant	1,5	–
Monthly	–	–
June 2022	4,8	–
June 2023	21,9	5,2
June 2024	17,5	47,9
June 2025	21,0	17,1
June 2026	4,3	29,8
> June 2027	29,0	–
<b>Total</b>	<b>100,0</b>	<b>100,0</b>
<b>Retail</b>		
Vacant	1,7	–
Monthly	–	–
June 2022	5,4	5,3
June 2023	31,3	35,6
June 2024	17,3	19,5
June 2025	10,8	10,2
June 2026	24,8	24,3
> June 2027	8,7	5,1
<b>Total</b>	<b>100,0</b>	<b>100,0</b>
<b>Office</b>		
Vacant	10,6	–
Monthly	–	–
June 2022	19,0	13,1
June 2023	14,8	15,4
June 2024	33,7	43,5
June 2025	–	0,2
June 2026	4,5	3,8
> June 2027	17,4	24,0
<b>Total</b>	<b>100,0</b>	<b>100,0</b>
<b>Residential</b>		
Vacant	8,6	–
Monthly	–	–
June 2022	74,6	83,6
June 2023	16,8	16,4
June 2024	–	–
June 2025	–	–
June 2026	–	–
> June 2027	–	–
<b>Total</b>	<b>100,0</b>	<b>100,0</b>

	Total GLA (hectares) %	Total gross rental %
<b>Specialised</b>		
Vacant	–	–
Monthly	–	–
June 2022	–	–
June 2023	–	–
June 2024 <sup>^</sup>	–	1,8
June 2025	10,1	18,5
June 2026	19,3	19,0
> June 2027	70,6	60,7
<b>Total</b>	<b>100,0</b>	<b>100,0</b>

<sup>^</sup> Includes rental for a network antenna for which there is no GLA.

## Weighted average lease escalation

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

## Vacancy analysis profile

	Vacancy based on GLA (m <sup>2</sup> )* %	Vacancy based on GLA (ha)* %
<b>Vacancy based on GLA</b>		
Retail	0,47	–
Office	0,61	–
Industrial	0,92	–
Specialised	–	–
Residential	0,14	–
<b>Average/total</b>	<b>2,14</b>	<b>–</b>

The specialised property comprises of 8,382 hectares industrial farms and the inclusion of this in the analysis by GLA (m<sup>2</sup>) would not provide meaningful analysis.

The specialised property, measured in hectares, has been analysed separately above.



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.

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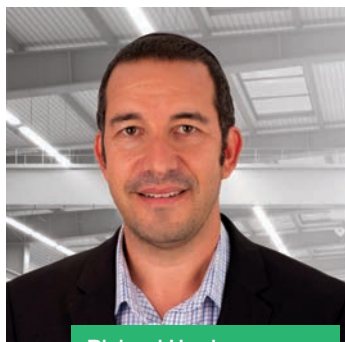
Leadership  
and  
governance



# Chairman and CEO's report



Steven Herring



Richard Herring

It is our pleasure to present Heriot's integrated report together with the group's results for the year ended 30 June 2021.

The 2021 financial year was another challenging year. The COVID-19 pandemic sent shockwaves through the global economy, constraining growth in emerging markets. The economic contraction in South Africa in 2020 was deep and the recovery in 2021 has been moderate. South Africa entered the pandemic after several years of low growth, and the persistence of the pandemic has resulted in the loss of lives and livelihoods and has constrained economic recovery at global and domestic levels. Levels of unemployment have reached unprecedented levels and long-standing structural weaknesses in the country have been exposed. As economic activity restarts, pre-existing structural constraints, such as electricity shortages, are becoming binding again. With the high levels of unemployment, household incomes have deteriorated, hitting a country that had already recorded high levels of inequality, unemployment and poverty before the COVID-19 outbreak.

In 2020 the economy contracted 7%, with deterioration in the construction, transport, mining, tourism and hospitality, consumer durables and retail sectors. The economy is expected to grow by 2,5% in 2021 due to a rebound of both domestic and external demand. COVID-19-related restrictions have been eased since March 2021 in order to support economic activity and, despite initial challenges, the vaccine rollout is picking up. South African banks are generally well capitalised and interest rates remain at relatively low levels.

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## Our combination of retail assets and our industrial portfolio has proved to be a defensive mix through challenging times.

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The main challenge ahead is to revive the economy after the massive adverse impact of the pandemic on South Africa. In 2021 we are looking at new hope as economies are gradually reopening. A rebound of global trade is providing opportunities for investors and exporters and in many of these markets there is a growing middle class, generating opportunities in consumer-oriented sectors.

### Results

COVID-19 has highlighted the resilience of the retail assets in Heriot's portfolio. Heriot's property portfolio comprises 51% retail assets that are mainly convenience or community centres in non-metropolitan areas, catering more for the daily needs of shoppers. These retail assets have outperformed the larger regional and super-regional shopping centres throughout the pandemic and together, with the industrial portfolio which is underpinned by long-term leases with national tenants, has proved to be a defensive mix through these challenging times.

Heriot's distributable earnings growth of 7,74% for the year ended 30 June 2021 is mainly attributable to the group's defensive portfolio and its low level of fixed debt that positioned Heriot to take advantage of the decrease in interest rates

in 2020. While Heriot lost two major industrial tenants during the year, replacement tenants have been secured for both properties and at year end portfolio vacancies amounted to 2,1%.

Heriot's net asset value per share increased by 36,0 cents to R11,43 per share, largely driven by a net increase of R65,655 million in the fair value of investment property.

The group's effective cash management and resulting strong cash flows have ensured that Heriot has sufficient cash to pay 100% of its distributable earnings for the year as a dividend.

### Property portfolio

The group is continually looking at ways to grow and streamline Heriot's asset base through the acquisition of high-quality properties, the redevelopment of existing properties and the disposal of assets identified as non-core.

Heriot is currently invested in properties across all major sectors in South Africa, with a focus on emerging market retail and industrial properties. While the value of the industrial property portfolio decreased by 3,2% in 2021 as a result of rent reversions in this sector, the overall increase of 1,6% in the value of the portfolio is reflective of the resilience displayed by retail properties in



The group is continually looking at ways to grow and streamline Heriot's asset base through the acquisition of high-quality properties, the redevelopment of existing properties and the disposal of assets identified as non-core.

non-metropolitan areas through the pandemic, and the impact of the increase in the value of paper and pulp commodities on the specialised properties, comprising paper plantations.

During the year, we implemented the first of many solar initiatives through the installation of a rooftop solar system at Tsakane Mall and, as part of Heriot's commitment to sustainability initiatives, we have employed a full-time resource to head up solar and other sustainability initiatives. We have committed to the installation of rooftop solar systems at four large retail properties within our portfolio to be completed within the 2022 financial year.

### Funding

Heriot's gearing and interest cover ratios of 38,8% and three times respectively are well within the banks' covenant requirements. The low level of debt at fixed rates has allowed the group to benefit from the recent drop in interest rates, reducing the average cost of borrowings from 8,62% in 2020 to 6,32% in 2021. Debt facilities of R400,0 million, expiring within the 2022 financial year, have been refinanced subsequent to year end for a further period of three years.

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 structure with a view to potentially increasing hedging levels within the medium term.

The group generates healthy monthly cash from operations, pays all creditors timeously and is able to refinance secured debt on favourable terms as and when it falls due. We are therefore confident that the group has sufficient cash resources to fund its operations for the foreseeable future.

### Governance and corporate social responsibility

While Heriot has established solid governance structures since its listing in 2017, we remain committed to improving and enhancing these over time.

We are dedicated to improving the quality of life of the people living within the communities surrounding our shopping centres and have identified several sustainable projects that will be implemented in the short to medium term. We further assist these communities by creating local employment opportunities and are committed to continuing with all initiatives in this regard.

Additional details of these initiatives have been provided in the report of the social and ethics committee on pages 32 and 33 of this integrated report.

## Outlook

Our focus remains on retaining tenants and reducing vacancies while continuing to explore opportunities to grow Heriot's asset base by way of the acquisition of high-quality properties in target markets and core sectors. We will further focus on enhancing the value of properties in Heriot's portfolio through the redevelopment of existing properties and by way of the installation of solar and other energy-saving initiatives.

While there is evidence that markets are stabilising, and we are confident that Heriot is positioned for growth when the economy turns, there remains uncertainty around the COVID-19 pandemic, especially in light of the predictions of an expected fourth wave of infections that may result in further trading restrictions for tenants.

The board is nevertheless confident that Heriot will deliver distributable earnings growth of 6,0%, to 8,0% in the 2022 financial year.

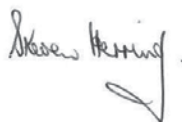
## Appreciation

We express our sincere thanks and appreciation to the executive and the entire Heriot team for their

hard work, commitment and dedication under the most challenging and uncertain times. Despite the difficulties faced, the team pulled together and delivered exceptional results.

We also wish to thank our tenants, bankers, shareholders and all business partners for their unwavering support during these unprecedented times.

Finally, to our fellow board members, thank you for your valuable input during the period under review.



**Steven Herring**  
*Chairman*



**Richard Herring**  
*CEO*

29 October 2021

# 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, 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:

- Adopting 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 managed 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.

## 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 are 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 executives and the staff of the company and the services of the company secretary. 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 ( <i>Chairman</i> )
Trevor John Cohen
Robin Lockhart-Ross

The CEO, CFO and representatives from the external auditor attend the meetings by invitation.

The board nominates members from its number for appointment to the audit and risk committee ("ARC"). Appointments are subject to the approval and confirmation of shareholders annually at the company's annual general meeting. The audit and risk committee meets at least three times per year and special meetings are convened as and when required. The audit and risk committee 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;
- Overseeing 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;
- Overseeing 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 committee'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 ( <i>Chairman</i> )
Trevor John Cohen
Steven Bernard Herring

The CEO and Robin Lockhart-Ross attend the meetings by invitation.

In view of the fact that certain of the functions of the remuneration committee and the nomination committee overlap, the board resolved to establish a combined remuneration and nomination committee ("Remco") comprising two independent non-executive directors and one non-executive director. The terms of reference of 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 terms of reference, the Remco's responsibilities include:

### Remuneration matters

- Determine and agree on 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 at the annual general meeting.

### Nomination matters

- Identify, evaluate and recommend appointees to the board and board committees;
- Consider, on a periodic basis (and at least annually), the composition of the board and make recommendations regarding the composition and membership of the board, with account given to the needs of the board and any "gaps" identified in terms of diversity 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.

The Investco assists the board with regard to investment decisions relating to the acquisition and disposal of property in line with its stated strategy.

The 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 ("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 SEC and the board. The main duties of the SEC 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 2021 is set out below:

	Meeting date			
	30 Sep 2020	8 Dec 2020	23 Feb 2021	2 Jun 2021
<b>Board</b>				
Steven Herring ( <i>Chairman</i> )	✓	✓	✓	✓
Selwyn Blieden	✓	✓	✓	✓
Trevor Cohen	✓	✓	✓	✓
Janys Finn	✓	✓	✓	✓
Richard Herring	✓	✓	✓	✓
Nelson Ngale	✓	✓	✓	✓
Robin Lockhart-Ross	✓	✓	✓	✓
	30 Sep 2020	22 Oct 2020	23 Feb 2021	2 Jun 2021
<b>Audit and risk committee</b>				
Selwyn Blieden ( <i>Chairman</i> )	✓	✓	✓	✓
Trevor Cohen	✓	✓	✓	✓
Robin Lockhart-Ross	✓	✓	✓	✓
Janys Finn^	✓	✓	✓	✓
Steven Herring^	✓	–	✓	✓
Richard Herring^	✓	–	✓	✓
	8 Dec 2020	2 Jun 2021		
<b>Remuneration and nomination committee</b>				
Selwyn Blieden ( <i>Chairman</i> )	✓	✓		
Trevor Cohen	✓	✓		
Steven Herring	✓	✓		
Robin Lockhart-Ross^	✓	✓		
	30 Sep 2020			
<b>Social and ethics committee</b>				
Nelson Ngale	✓			
Janys Finn	✓			
Richard Herring	✓			
	15 Sep 2020	18 Jan 2021		
<b>Investment committee</b>				
Steven Herring ( <i>Chairman</i> )	✓	✓		
Robin Lockhart-Ross	✓	✓		
Janys Finn	✓	✓		
Richard Herring	✓	✓		

<sup>^</sup> Attended by invitation.

# Risk management

The objective of risk management is to identify, assess, manage and monitor the risks to which Heriot is exposed. The board retains overall responsibility for risk management and for the definition of the company's overall risk strategy and tolerance.

## Investment property portfolio

### Inability to source suitable properties for acquisition

#### Impact of risk:

Restricts ability to grow the portfolio

#### Mitigation strategies:

- Regular interaction with key people in the industry

### Damage to investment property

#### Impact of risk:

Financial loss to the company and reduced asset value

#### Mitigation strategies:

- 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

#### Impact of risk:

Devaluation and/or depreciation of properties due to lack of maintenance

#### Mitigation strategies:

- 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

#### Impact of risk:

Rental growth, capital appreciation and return to shareholders may be adversely impacted by increased vacancies and tenant defaults

#### Mitigation strategies:

- 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

#### Impact of risk:

Increased cost of borrowings will reduce return to shareholders

#### Mitigation strategies:

- Continual review of policy regarding fixed interest rates and hedging
- Negotiations with banks to reduce cost of borrowings



## Financing continued

### Availability of finance for property acquisitions and redevelopment

#### Impact of risk:

Inability to grow the portfolio

#### Mitigation strategies:

- Regular interaction with bankers to ensure the availability of debt for funding
- Facilitate access to equity in the future through engagement with analysts and fund managers to create awareness of Heriot

### Refinance risk

#### Impact of risk:

Risk of refinancing when existing debt facilities near expiry

#### Mitigation strategies:

- Maintain gearing at below 40% loan-to-value
- Stagger debt expiry profile
- Policy of being multi-banked

## Governance

### Non-compliance with regulations

#### Impact of risk:

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

#### Mitigation strategies:

- 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

#### Impact of risk:

Loss of key staff or being under-resourced will impact the ability to achieve the group's objectives effectively

#### Mitigation strategies:

- 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 incentive scheme that aligns the interests of staff members with the performance of the company is being investigated

### Information technology ("IT") failure

#### Impact of risk:

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

#### Mitigation strategies:

- Support of appropriately skilled IT resources and contractors

### Fraud and errors

#### Impact of risk:

Financial loss as a result of employee fraud going undetected

#### Mitigation strategies:

- 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:

Governance outcome: Ethical culture	
Principle 1: Ethical leadership	
<b>King IV™ principle:</b> The governing body should lead ethically and effectively	<b>Application:</b> <p>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™.</p> <p>Measures are in place to ensure that all board members have sufficient working knowledge of the company, its industry, its operating context and all key laws, rules, codes and standards.</p>
Principle 2: Organisation values, ethics and culture	
<b>King IV™ principle:</b> The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture	<b>Application:</b> <p>The board has adopted a code of ethics which clearly sets out the business practices for the company to follow as well as the standards of behaviour for all persons within the company.</p> <p>The board ensures that compliance with its code is integrated into the strategy and operations, conduct and the way Heriot treats its stakeholders.</p>
Principle 3: Responsible corporate citizenship	
<b>King IV™ principle:</b> The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen	<b>Application:</b> <p>The board has undertaken a full review of the company's position with regard to being a responsible corporate citizen. This includes a review of the company's remuneration policies and work environment.</p> <p>Heriot is a socially responsible company that is committed to sustainable transformation in line with the objectives of the Broad-based Black Economic Empowerment Act ("B-BBEE") and the National Development Plan. The company promotes a non-racial and culturally diverse philosophy.</p> <p>Heriot is committed to becoming a B-BBEE-compliant company through employment equity promotion in the workplace, procurement practices that 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 2021 financial year.</p>

## Governance outcome: Performance and value creation

### Principle 4: Strategy, implementation and performance

#### King IV™ principle:

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

#### Application:

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

#### King IV™ principle:

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

#### Application:

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 investment committee 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 investment committee that have been approved by the board are broadly:

- to make yield-enhancing acquisitions that provide a platform for growth; and
- to dispose of properties that no longer fit within the group's investment criteria, geographically or otherwise.

## Governance outcome: Adequate and effective control

### Principle 6: Role of the governing body

#### King IV™ principle:

The governing body should serve as the focal point and custodian of corporate governance in the organisation

#### Application:

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.

## Governance outcome: Adequate and effective control continued

### Principle 7: Composition of the governing body

#### King IV™ principle:

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

#### Application:

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 and comprises 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. Furthermore, the board has unrestricted access to all information, records, documents and property of the company.

### Principle 8: Committees of the governing body

#### King IV™ principle:

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

#### Application:

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

#### King IV™ principle:

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

#### Application:

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.

## Governance outcome: Adequate and effective control continued

### Principle 10: Delegation to management

#### King IV™ principle:

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

#### Application:

A detailed delegation of authority policy and framework identifies matters reserved for the board and those delegated to management. The board is satisfied that its delegation to management contributes to an effective arrangement by which authority and responsibilities are exercised.

In instances where delegation has taken place to management or committees, preapproved materiality levels and terms of reference apply.

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.

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

#### King IV™ principle:

The governing body should govern risk in a way that supports the organisation in setting and achieving strategic objectives

#### Application:

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

#### King IV™ principle:

The governing body should govern technology and information in a way that supports the organisation in setting and achieving its strategic objectives

#### Application:

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 and information backups are 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

#### King IV™ principle:

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

#### Application:

The board ensures compliance with all relevant South African legislation, the JSE Listings Requirements and King IV™.



## Governance outcome: Adequate and effective control continued

### Principle 14: Remuneration governance

#### King IV™ principle:

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

#### Application:

The remuneration and nomination committee provides guidance to the board regarding the company's remuneration policy which is designed to attract, retain and motivate employees to achieve the strategic objectives of the group.

The full remuneration policy as well as the remuneration implementation report are contained in the report of the remuneration and nomination committee on pages 28 to 30 of this integrated report.

### Principle 15: Assurance

#### King IV™ principle:

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

#### Application:

The board has approved terms of reference 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

#### King IV™ principle:

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

#### Application:

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 remuneration and nomination committee

I am pleased to present Heriot's remuneration report for 2021, 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.

## Background statement

A motivated and skilled management team is considered as being integral to the successful implementation of the group'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 hereafter, will be put to non-binding advisory shareholder votes at the upcoming annual general meeting of the company to be held on Wednesday, 8 December 2021.

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.

## 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
- Long-term incentive – structures to align management with shareholders and retain skills.

## 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 that are comparable in terms of size, market sector and complexity. Annual increases, awarded on 1 January, are determined with reference to inflation, individual performance and by what the company can afford.

## 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 to the company.

In 2021 the committee began a process of identifying performance measures and methodologies to guide incentive awards to Heriot staff. Extensive work has been undertaken, including the building of models and analyses of the approaches taken by other companies. The work was done with the intention of formally implementing new remuneration systems in the 2021 financial year. The committee has chosen to defer this implementation. Strategic growth initiatives of the company mean that choosing a formal incentive system at this time may prove premature. For the present, we maintain the discretionary cash bonus system described in the preceding paragraph.

## Long-term incentive

Since its listing, the company has had a long-term share purchase scheme in place. In terms of this scheme, employees who were chosen as scheme participants were offered loans to purchase shares in Heriot. The only allocations made in terms of

this scheme were made on the company's listing in 2017. The committee has been reviewing this scheme as part of the broader assessment of incentivisation and remuneration mentioned earlier in this report and has concluded that the existing share scheme is no longer a suitable method for obtaining alignment between shareholders and management. The scheme will continue for employees who historically obtained shares through the scheme and have chosen to maintain their positions in it. However, the intention is that no further allocations will be made in terms of this scheme and that, over time it may be replaced by other long-term incentivisation mechanisms. The committee will continue its work on assessing potential incentivisation systems as described in this report's section on short-term incentive.

## 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 months' notice. There are no restraint of trade clauses nor are there contractual obligations to executive management in terms of any separation payments.

Details of the remuneration paid to the executive directors for the year ended 30 June 2021, which is in line with the remuneration policy, are set out in note 24 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.

## Report of the remuneration and nomination committee continued

In terms of a special resolution passed by all shareholders at the annual general meeting held on 8 December 2020, 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
<b>Annual fee</b>	
Chairman of the board	325 000
Member of the board	300 000
<b>Fee per meeting</b>	
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 2021 and proposed fees for 2022 are as follows:

	Actual 2021 R	Proposed 2022 R
<b>Annual fee</b>		
Chairman of the board	300 000	300 000
Member of the board	200 000	200 000
<b>Fee per committee meeting</b>		
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 2021

# Report of the investment committee

The investment committee is chaired by the founder and chairperson of Heriot, Steven Herring, and further comprises the executive directors and non-executive director, Robin Lockhart Ross.

**The role of the committee is to evaluate all investment opportunities and to be responsible for evaluating all investment opportunities and to make recommendations to the board with regard thereto. The committee meets when decisions are required to acquire, dispose of or significantly redevelop property assets.**

The committee oversees the group's investment strategy which is to identify value-enhancing opportunities within the industrial and retail property sectors in South Africa, focusing on convenience and small regional retail centres in peri-urban and rural areas, and to create a stable and diverse portfolio of property assets for the purposes of generating secure income streams and creating capital growth.

The responsibility of the committee is to consider recommendations from management for acquisitions, capital expenditure or disposals and in this regard, the committee must:

- Ensure that acquisitions are income-enhancing and within Heriot's target market;
- Give careful consideration to acquisitions that are dilutionary; and
- Identify properties for disposal that no longer fit within the group's investment criteria, geographically or otherwise.

The committee has the power to approve transactions that are within its limits of authority without reference to board.

The limits of authority are as follows:

- 5% of the value of the property portfolio per transaction and up to 10% of the value of the property portfolio in

respect of acquisitions, refurbishments and redevelopment projects;

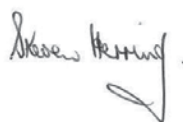
- Individual sales transactions below R100 million or 10% of the portfolio value in respect of disposals, in aggregate, totalling not more than 10% of the portfolio value; and
- Raise funding for acquisitions provided that Heriot's gearing levels do not exceed 40% at any point in time.

Any transactions in excess of the mandated limits must be considered by the committee and approved by the board. All transactions are subject to any applicable statutory and regulatory conditions and compliance, including but not limited to the JSE Listings Requirements and the Competition Act.

During the year, the committee considered a number of strategic transactions and approved the following transactions:

- The acquisition of 8 550 000 shares in Safari Investments ("Safari") at R3,50 per share; and
- Subsequent to the reporting date
  - the acquisition of a further 50 078 280 shares in Safari for a total consideration of R280,438 million or R5,60 per share, increasing Heriot's holding to 18,86% at the date of this report;
  - The disposal of the Mpact Nelspruit property for R77,0 million; and
  - The acquisition of Shoprite Emmarentia for R58,0 million.

The committee further approved the solar energy plan for all suitable properties in the portfolio, commencing with the installation of rooftop solar systems at four large retail properties within our portfolio to be completed within the 2022 financial year.



**Steven Herring**  
*Investment committee chairman*

29 October 2021

# 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 terms of reference 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 designed to benefit the local communities surrounding our business activities.

For the period 1 July 2020 to date, Heriot has donated:

- 14 000 hand sanitisers and 56 sanitiser wall dispensers to seven schools located in the areas surrounding Heriot's retail malls. This campaign was designed to provide scholars with easy access to sanitiser to reduce their risk of contracting, and spreading, the COVID-19 virus;
- 10 000 packs of sanitary towels, or 100 000 individual towels to eight schools in close proximity to our retail malls. Our support of this initiative is designed to reduce absenteeism and dropout rates in schools and to increase opportunities for girls to complete their education with dignity. Heriot is committed to supporting this initiative on an ongoing basis; and
- 18 000 toothbrushes together with 18 000 tubes of toothpaste to 12 schools in the rural communities serviced by Heriot's retail malls. This donation was coupled with a presentation by an oral hygienist and was aimed at educating children as to the importance of oral hygiene in the prevention of tooth decay and gum disease.

Heriot remains committed to transformation within the sector in which it operates and, pursuant to its efforts to uplift local communities, it awards many jobs and contracts for the servicing and maintenance of its malls to B-BBEE entities.

### B-BBEE scorecard

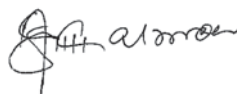
While Heriot is committed to becoming a B-BBEE-compliant company through employment equity promotion in the workplace, including procurement practices which support developing businesses and suppliers, enterprise creation and equity ownership in the group, the company remains non-compliant.

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 2022 is to improve the group's rating per 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. We have identified several sustainable initiatives that will improve the quality of life of the people living within the communities surrounding our shopping centres and will seek to implement these over the short to medium term. In the forthcoming year, we will continue to host 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 2021



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

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Annual  
financial  
statements

# Directors' responsibility and approval

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

The consolidated and separate company financial statements are prepared in accordance with IFRS, the JSE Listings Requirements, Financial Pronouncements as issued by the Financial Reporting Standards Council and the Companies Act and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial controls established by the group and company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board 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 management is required to maintain the highest ethical standards in ensuring the group and company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the group and company is on identifying, assessing, managing and monitoring all known forms of risk within the group and company. While operating risk cannot be fully eliminated, the group and

company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

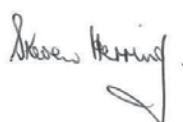
The group and company's audit and risk committee plays an integral role in risk management as well as overseeing the group and company's integrated reporting. The Code of Corporate Practices and Conduct has been integrated into the group and company's strategies and operations.

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

The directors have reviewed the group and company's cash flow forecast for the year to 30 June 2022 and, based on 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 company financial statements have been examined by the group and company's external auditor and his report is presented on pages 44 to 47.

The consolidated and separate financial statements set out on pages 48 to 93, which have been prepared on the going concern basis, were approved by the board of directors on 29 October 2021 and were signed on its behalf by:



**SB Herring**  
Chairman

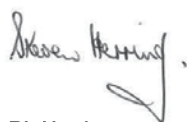


**RL Herring**  
Chief executive officer

# Chief executive officer and chief financial officer's responsibility statement

In line with paragraph 3.84(k) of the JSE Listings Requirements, the chief executive officer and chief financial officer hereby confirm that:

- The annual financial statements set out on pages 48 to 93 fairly present in all material respects the financial position, financial performance and cash flows of the group and company in terms of IFRS;
- No facts have been omitted nor untrue statements made that would make the annual financial statements false or misleading;
- Internal financial controls have been put in place to ensure that material information relating to the company and its consolidated subsidiaries have been provided to effectively prepare the annual financial statements; and
- The internal financial controls are adequate and effective and can be relied upon in compiling the annual financial statements, having fulfilled our role and function within the combined assurance model pursuant to principle 15 of the King Code. Where we are not satisfied, we have disclosed to the audit and risk committee and the auditor the deficiencies in design and operational effectiveness of the internal financial controls and any fraud that involves directors, and have taken the necessary remedial action.



**RL Herring**  
*Chief executive officer*



**JA Finn**  
*Chief financial officer*

29 October 2021

## Group company secretary's certification

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

In accordance with the provisions of sections 88(2)(e) of the Companies Act, I certify that for the year ended 30 June 2021, 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*

29 October 2021

# Report of the audit and risk committee

The audit and risk committee (the “committee”) is an independent statutory committee to which duties are delegated by the board. Committee members are appointed by the board, subject to approval by shareholders at the annual general meeting.

The committee is chaired by independent non-executive director, Selwyn Blieden, and further comprises two independent non-executive directors, Trevor Cohen and Robin Lockhart-Ross. The chief executive officer, chief financial officer and representatives of the external auditor are present at meetings by standing invitation.

The committee is governed by a formal charter that is reviewed annually. The committee meets at least three times per year and special meetings are convened when necessary. Details of attendance by members at meetings for the year ended 30 June 2021 are set out on page 20.

The board has satisfied itself that:

- Committee members have the required knowledge and experience as set out in section 94(5) of the Companies Act and regulation 42 of the Companies Regulations, 2011;
- 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 is responsible for performing the functions required in terms of section 94(7) of the Companies Act. These functions include nominating and appointing the group’s auditor and ensuring that such auditor is independent of the group; determining the fees to be paid to the auditor and the auditor’s terms of engagement; ensuring that the appointment of the auditor complies with the provisions of the Companies Act and any other relevant legislation; determining the nature and extent of any non-audit services that the auditor may provide to the company; receiving and dealing appropriately with any concerns or complaints, whether from within or outside the

company, or on its own initiative, relating to the accounting practices of the company, the content or auditing of the company’s financial statements, the internal financial controls of the company or any related matter; and to perform any other oversight functions as may be determined by the board.

Other responsibilities of the committee include:

- Adopting and implementing an appropriate financial risk management policy in accordance with industry practice and monitoring compliance with this policy;
- Reporting in the integrated report that the group has, in all material respects, complied with the policy during the year concerned; and
- Reporting to the JSE in the annual compliance declaration (as referred to in paragraph 13.49(d) of the JSE Listings Requirements) that it has monitored compliance with the policy and that the group has, in all material respects, complied with the policy during the year concerned.

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 chief financial officer, 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 committee 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 reviewed the annual financial statements for the year ended 30 June 2021 and is of the view that they comply with IFRS in all material respects. Further, the committee reviewed this IAR and is satisfied that the information is reliable, consistent, fairly represented, prepared in accordance with appropriate reporting standards and conforms to the requirements of King IV™ and the JSE Listings Requirements and has recommended the annual financial statements for the year ended 30 June 2021 for approval by the board of directors.

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 Wednesday, 8 December 2021.



**Selwyn Blieden**

*Audit and risk committee chairman*

29 October 2021



# Directors' report

The directors have pleasure in submitting their report on the financial statements of Heriot REIT Limited ("Heriot", the "company" or the "group") and its subsidiaries for the year ended 30 June 2021.

## Nature of business

Heriot, a property holding and investment company listed in the "Diversified REITs" sector on the Alternative Exchange ("AltX") of the JSE, is invested in a diversified portfolio of properties valued at R4,537 billion, with a focus on retail assets in non-metropolitan areas. 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 purposes of generating secure and escalating net rental income streams.

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

## Accounting policies

The financial statements of the company and group have been prepared in conformity with International Financial Reporting Standards ("IFRS"), the JSE Listings Requirements, Financial Pronouncements as issued by the Financial Reporting Standards Council and the Companies Act. The accounting policies have been applied consistently with those of the previous year.

## Review of financial results and activities

The operating results and state of affairs of the group and company are fully set out in the attached financial statements.

The group recorded distributable earnings of R231,8 million for the year, 7,748% ahead of distributable earnings generated for the previous financial year. This growth is mainly attributable to the group's low level of fixed debt that positioned Heriot to take advantage of the decrease of 300 bps in the repo rate in 2020, reducing the average cost of debt from 8,62% in 2020 to 6,32% for the year under review. At June 2021, the group's gearing ratio of 38,8% remained unchanged from that of the previous year.

The fair value of investment property increased by R65,655 million, or 1,6% on a like-for-like basis. This increase was driven by increases of R79,3 million and R56,3 million in the fair value of properties in the retail and specialised sectors respectively, offset by a decrease of R95,1 million in the value of industrial assets. The enhancement in the value of the retail property is reflective of the resilience displayed by properties in non-metropolitan areas through the COVID-19 pandemic, while the increase in the value of the specialised properties, comprising of paper plantations, is mainly as a result of the significant increase in the value of paper and pulp commodities in recent years. The decrease in the value of the industrial portfolio is as a result of rent reversions in this sector.

Heriot's net asset value per share increased by 36,0 cents to R11,43 per share, largely as a result of the net increase in the fair value of investment property.

## 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

In terms of REIT legislation, at least 75% of distributable earnings must be distributed by a REIT to shareholders every year. Since its listing in July 2017, Heriot has maintained a 100% dividend payout ratio. In respect of the year ended 30 June 2021, the following dividends were declared by the company:

- Dividend number 7 – an interim dividend of 43,84000 cents per share for the six months ended 31 December 2020 was declared on 23 February 2021. The total dividend of R111,961 million was paid to shareholders on 15 March 2020; and
- Dividend number 8 – a final dividend of 46,88000 cents per share for the six months ended 30 June 2021 was declared to shareholders on 30 September 2021. The total dividend of R119,727 million was paid to shareholders on 25 October 2021.



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, No 58 of 1962 (as amended).

### Distributable earnings

Heriot uses distribution per share as its trading statement relevant measure. Heriot’s distributable income has been calculated as follows:

	Year ended 30 June 2021 R'000	Year ended 30 June 2020 R'000
Contractual rental income and recoveries, excluding straight-line rental income	529 977	520 931
Property expenses	(154 615)	(139 416)
Other income	10 050	12 955
Administrative expenses and corporate costs	(40 116)	(38 671)
Per statement of comprehensive income	(40 622)	(39 172)
Adjusted for: depreciation charged on owner occupied property	506	501
Net finance costs	(104 252)	(135 295)
Finance income	10 163	10 988
Finance charges	(114 415)	(146 283)
Income tax	(1 539)	(1 406)
Dividend received from equity-accounted entities	–	600
Non-controlling interest	(7 817)	(4 653)
	231 688	215 045
Number of shares in issue at reporting date*	255 395 858	255 395 858
Distribution per share (cents)	90,72	84,20

\* Excluding the 900 000 treasury shares in issue.

## 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
SB Herring	Chairman
R Lockhart-Ross	Independent
N Ngale	Independent

## Directors' report continued

### Directors' interest in shares

As at 30 June 2021, the directors held the following direct and indirect interests in shares in the company:

As at 30 June 2021	Beneficial holdings		Non-beneficial holdings		Total	%
	Direct	Indirect	Direct	Indirect		
RL Herring*	2 800 000	11 377 339	–	–	14 177 339	5,5
JA Finn*	–	–	–	–	–	–
SJ Blieden	–	–	–	–	–	–
TJ Cohen	–	–	–	–	–	–
SB Herring	–	222 790 183	–	–	222 790 183	86,9
R Lockhart-Ross	–	–	–	–	–	–
N Ngale	–	–	–	–	–	–
	2 800 000	234 031 220	–	–	235 731 220	92,4

\* RL Herring has pledged his direct holding of 2 800 000 as security for an amount owed to the company in terms of the employee share scheme. At 30 June 2021, the loans amounted to R29,759 million.

During the year under review, RL Herring acquired 1 950 000 shares from participants in the share scheme, including 850 000 shares from JA Finn, at R10,50 per share.

As at 30 June 2020, the directors held the following direct and indirect interests in shares in the company:

As at 30 June 2020	Beneficial holdings		Non-beneficial holdings		Total	%
	Direct	Indirect	Direct	Indirect		
RL Herring*	850 000	11 377 339	–	–	12 227 339	4,8
JA Finn*	850 000	–	–	–	850 000	0,3
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 both had 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 2021 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

The following significant events have occurred post the reporting date:

- The transfer of an industrial property in Kimberley on 13 July 2021. At year end, the property was revalued to R6,50 million, being Heriot's 50% share of the selling price, and was disclosed as an asset held for sale in the statement of financial position at 30 June 2021;
- The refinancing of Standard Bank debt of R400,0 million for a further period of three years. R350,0 million of the refinanced facility is subject to interest at the rate of 3 month JIBAR plus a margin of 195 bps, while the balance, a revolving credit facility, is subject to interest at prime less 140 bps;
- The acquisition of 50 078 280 shares in Safari Investments for a total consideration of R280,438 million or R5,60 per share, increasing Heriot's holding to 18,86% at the date of this report;
- An agreement for the disposal of the Mpact Nelspruit property for R77,0 million, which is in line with the valuation of this property at 30 June 2021; and
- An agreement for the purchase of Shoprite Emmarentia for R58,0 million.

## 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. 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 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 Inc. will continue in office in accordance with section 90 of the Companies Act. The designated audit partner will remain unchanged and, on this basis, Mr Paul Badrick will be the partner responsible for the audit.

## Company secretary

CIS Company Secretaries Proprietary Limited ("CIS") is the company secretary. During the year, CIS was represented by Craig Laidlaw and Future Bhonkwane, both of whom are associate members of Chartered Secretaries South Africa.

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

The address of the secretary is set out below:

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

## Preparer

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

# 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 48 to 93, which comprise the consolidated and separate statements of financial position as at 30 June 2021, and the consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Heriot REIT Limited as at 30 June 2021, 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. The following key matter relates to the consolidated financial statements. We have determined that there are no key audit matters in respect of the separate financial statements.

Key audit matter	How our audit addressed the key audit matter
<p><b>Valuation of investment property</b> Significant judgement is required by management in determining the fair value of investment property.</p> <p>The portfolio is valued annually by independent valuers.</p> <p>The most significant inputs are set out in the note 2, all of which are unobservable.</p> <p>The valuations were based on discounted cash flow models</p> <p>The valuation of investment property is considered most significant in our audit of the consolidated financial statements of the current year due to the significant of the balance, the inputs into the valuation are inherently judgmental and the sensitivity of the valuations to changes in assumptions.</p>	<p>We performed the following procedures amongst others:</p> <ul style="list-style-type: none"> <li>assessed the design and tested the implementation of the key controls over the valuation;</li> <li>evaluated the competence, capabilities and objectivity of the external valuer. This included verifying professional qualifications and an assessment of the independence and appropriateness of the valuator used;</li> <li>through discussions with the external valuator, obtained an understanding of the work performed, which included, the valuation methodology adopted, the significant assumptions used, and critical judgement areas applied, such as vacancy levels, discount rates and terminal capitalisation rates;</li> <li>with the assistance of our internal corporate finance specialist, assessed that the valuation methodology was appropriate, compared for reasonability, the significant assumptions and judgements used by the valuator against historical inputs and market data, where available, and investigated unexpected movements;</li> <li>for all properties, we verified the mathematical accuracy of the models applied, evaluated the reasonability of the inputs, and assessed the reasonability of management forecast by comparing the forecast to the actual historical results for reasonability, assessed reasonableness of the growth rates used to the SAPOA capitalisation and discount rate report; and</li> <li>we assessed the completeness and adequacy of the disclosure in the financial statements for compliance with International Financial Reporting Standards, including disclosure on significant inputs and sensitivity analysis.</li> </ul>

## Independent auditor's report continued

### Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Heriot REIT Integrated Report 2021 for the year ended 30 June", which includes the Directors' Report, the Audit and Risk 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, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Directors for the Consolidated and Separate Financial Statements

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

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern

and using the going concern basis of accounting unless the directors either intend to liquidate the group and / or the company or to cease operations, or have no realistic alternative but to do so.

### Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

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

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

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

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

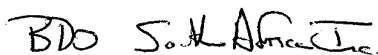
We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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



**BDO South Africa Incorporated**  
*Registered Auditors*

**Paul Badrick**  
*Director*  
*Registered Auditor*

29 October 2021

Wanderers Office Park  
52 Corlett Drive  
Illovo, 2196



# Statements of financial position

as at 30 June 2021

		GROUP		COMPANY	
	Note	2021 R'000	2020 R'000	2021 R'000	2020 R'000
Assets					
Non-current assets		4 746 026	4 575 317	2 792 921	2 469 429
Investment property		4 531 350	4 417 400	–	–
Fair value of property portfolio	2	4 595 715	4 455 922	–	–
Straight-line rental income accrual	3	(64 365)	(38 522)	–	–
Property under development	4	109 242	89 462	–	–
Property, plant and equipment	5	27 094	26 003	–	–
Investment in subsidiaries	6	–	–	2 360 428	2 434 070
Investment in associate	7	4 824	7 093	–	–
Financial assets	8	73 516	35 359	432 493	35 359
Current assets		195 611	164 631	433 368	224 244
Trade and other receivables		35 000	32 738	20	19
Dividends receivable	10	–	–	199 334	214 226
Financial assets	8	50 311	45 621	137 889	9 995
Taxation		–	14	–	–
Cash and cash equivalents	11	110 300	86 258	96 125	4
Non-current assets held for sale		6 500	47 500	–	–
Total assets		4 948 137	4 787 448	3 226 289	2 693 673
Equity and liabilities					
Equity		2 964 565	2 873 068	2 476 570	2 539 243
Shareholders' interest		2 918 016	2 827 924	2 476 570	2 539 243
Stated capital	13	2 548 624	2 548 624	2 557 648	2 557 648
Reserves		369 392	279 300	(81 078)	(18 405)
Non-controlling interests		46 549	45 144	–	–
Liabilities		1 460 997	1 715 166	740 045	–
Interest-bearing borrowings		1 397 265	1 634 066	740 045	–
Derivative financial instrument	16	–	17 676	–	–
Deferred taxation	17	63 732	63 424	–	–
Current liabilities		522 575	199 214	9 674	154 430
Interest-bearing borrowings		431 024	132 185	–	–
Derivative financial instrument	16	5 905	–	–	–
Other financial liabilities	18	–	–	–	154 420
Trade and other payables	19	85 617	67 029	9 674	10
Taxation		29	–	–	–
Total equity and liabilities		4 948 137	4 787 448	3 226 289	2 693 673

# Statements of profit and loss and comprehensive income

for the year ended 30 June 2021

	Note	GROUP		COMPANY	
		2021 R'000	2020 R'000	2021 R'000	2020 R'000
<b>Revenue</b>	20	504 134	508 088	261 535	214 138
Contractual rental income		424 558	414 584	–	–
Dividends received		–	–	261 535	214 138
Operating cost recoveries		105 419	106 347	–	–
Straight-line rental income accrual		(25 843)	(12 843)	–	–
Operating costs		(154 615)	(139 416)	–	–
<b>Net property income</b>		349 519	368 672	261 535	214 138
Equity accounted (losses)/profits (net of taxation)	7	(2 269)	266	–	–
Other income	21	10 050	12 955	–	–
Administration costs		(40 622)	(39 172)	(2 483)	(2 168)
Impairment loss	22	–	–	(70 730)	(76 912)
<b>Profit from operations</b>	23	316 678	342 721	188 322	135 058
Finance charges	25	(114 415)	(146 283)	(38 597)	–
Finance income	26	10 163	10 988	11 323	3 074
<b>Profit before fair value adjustments</b>		212 426	207 426	161 048	138 132
Fair value adjustments	27	111 819	(117 654)	–	–
<b>Profit before taxation</b>		324 245	89 772	161 048	138 132
Taxation	28	(1 847)	(1 714)	–	–
<b>Total comprehensive income for the year</b>		322 398	88 058	161 048	138 132
Attributable to:					
Heriot shareholders		313 027	82 710		
Non-controlling shareholders		9 371	5 348		
		322 398	88 058		
<b>Basic earnings per share (cents)</b>	29	122,57	32,39		

# Statements of changes in equity

for the year ended 30 June 2021

	GROUP			
	Stated capital R'000	Reserves R'000	Non-controlling interests R'000	Total R'000
<b>Balance at 30 June 2019</b>	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)
<b>Balance at 30 June 2020</b>	<b>2 548 624</b>	<b>279 300</b>	<b>45 144</b>	<b>2 873 068</b>
Total comprehensive income for the year	–	313 027	9 371	322 398
Dividends	–	(222 935)	(7 966)	(230 901)
<b>Balance at 30 June 2021</b>	<b>2 548 624</b>	<b>369 392</b>	<b>46 549</b>	<b>2 964 565</b>
Note	13		14	

	COMPANY		
	Stated capital R'000	Reserves R'000	Total R'000
<b>Balance at 30 June 2019</b>	2 557 648	53 937	2 611 585
Total comprehensive income for the year	–	138 132	138 132
Dividends	–	(210 474)	(210 474)
<b>Balance at 30 June 2020</b>	<b>2 557 648</b>	<b>(18 405)</b>	<b>2 539 243</b>
Total comprehensive income for the year	–	161 048	161 048
Dividends	–	(223 721)	(223 721)
<b>Balance at 30 June 2021</b>	<b>2 557 648</b>	<b>(81 078)</b>	<b>2 476 570</b>
Note	13		

# Statements of cash flows

for the year ended 30 June 2021

	Note	GROUP		COMPANY	
		2021 R'000	2020 R'000	2021 R'000	2020 R'000
<b>Net cash generated from operating activities</b>		<b>252 960</b>	220 430	<b>245 976</b>	205 567
Cash generated from operations	30.2	354 742	356 052	(2 461)	(5 145)
Finance charges		(110 449)	(146 283)	(28 956)	–
Finance income		10 163	10 988	966	3 074
Dividends received	30.3	–	–	276 427	207 638
Taxation paid	30.4	(1 496)	(327)	–	–
<b>Net cash (utilised in)/generated from investing activities</b>		<b>(62 363)</b>	(87 331)	<b>66 471</b>	2 749
Acquisition and development of investment property	2, 4	(75 325)	(86 629)	–	–
Proceeds on disposal of investment property		47 500	–	–	–
Acquisition of property, plant and equipment	5	(2 397)	(1 748)	–	–
Acquisition of listed shares		(29 925)	–	–	–
Loans advanced to subsidiaries	8	–	–	122 315	–
Loans repaid by subsidiaries	8	–	–	(58 318)	–
Loan repaid by related party	8	389	4 740	–	–
Loan advanced to related party	8	(5 079)	(7 043)	–	–
Share scheme debt repaid	8	2 474	2 749	2 474	2 749
Dividends received from associates		–	600	–	–
<b>Net cash utilised in financing activities</b>		<b>(166 555)</b>	(74 480)	<b>(216 326)</b>	(208 320)
Dividends paid to Heriot shareholders		(222 935)	(209 735)	(223 721)	(210 474)
Dividends paid to non-controlling shareholders	30.5	(5 658)	(5 808)	–	–
Loans advanced by subsidiaries	18	–	–	–	2 154
Interest-bearing borrowings raised	30.5	92 038	141 063	7 395	–
Interest-bearing borrowings repaid	30.5	(30 000)	–	–	–
<b>Net movement in cash and cash equivalents</b>		<b>24 042</b>	58 619	<b>96 121</b>	(4)
Cash and cash equivalents at the beginning of the year		86 258	27 639	4	8
<b>Cash and cash equivalents at the end of the year</b>		<b>110 300</b>	86 258	<b>96 125</b>	4

# Notes to the annual financial statements

for the year ended 30 June 2021

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

## 1. Accounting policies

### 1.1 Basis of preparation

The company financial statements and group financial statements are prepared on the historical cost basis, except for investment properties and certain financial instruments which are measured at fair value, 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 of the annual financial statements, which had no material impact on the results.

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

### 1.3 Use of estimates and judgements

In preparing the consolidated and separate financial statements, management is required to make estimates and assumptions that affect the amounts represented in the consolidated and separate 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 and separate financial statements.

#### Significant judgements

##### *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 simplified 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.

#### Sources of estimation uncertainty

##### *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 is determined using the 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 financial statements of the company are reflected at cost less accumulated impairment losses.

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

### Associates

An associate is an entity over which the group has significant influence.

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

The consolidated financial statements include the group's share of the income and expenses and equity movements of equity-accounted investees, after adjustments to align the accounting policies with those of the group, from the date that significant influence commences until the date that significant influence ceases. When the group's share of losses equals or exceeds its interest in an equity-accounted investee, the carrying amount of

that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the group has an obligation or has made payments on behalf of the investee.

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

## 1.5 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.

# Notes to the annual financial statements continued

for the year ended 30 June 2021

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

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

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

## Investment property under development

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

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

Borrowing costs are capitalised to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalisation of borrowing costs may continue until the asset is substantially ready for its intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised.

The capitalisation rate is arrived at by reference to the actual rate payable on borrowings for development purposes or, with regard to that part of development cost financed out of general groups, the weighted average cost of borrowings.

## 1.7 Property, plant and equipment

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

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

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

Property	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 of equity instruments, 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
Investment in listed shares	Initially recognised at fair value. Subsequent changes in fair value are recognised in profit and loss. Dividends from investments in listed shares are recognised in profit or loss as other income when the group's right to receive payments is established
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.

### Impairment

The group recognises a loss allowance for expected credit losses ("ECLs") on trade and other receivables and loan receivables.

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.

# Notes to the annual financial statements continued

for the year ended 30 June 2021

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 and recoveries from tenants, excluding value added taxation. The company recognises revenue in accordance with:

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

Rental revenue from investment property is recognised on a straight-line lease basis when a lease is signed and the tenant has taken occupation of the premises. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties.

Turnover rentals are recognised as revenue when the amounts can be reliably measured.

Operating cost recoveries, comprising the group's recovery of costs for providing the tenant with services as determined by the lease agreement, are levied monthly in arrears. Operating cost recoveries are based on consumption and actual expenses incurred and are accounted for in accordance with IFRS 15. 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.

Rental and recoveries are billed on a monthly basis and payment is due by the first of the month.

At company level, revenue 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.

## 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 and dividend received. Interest income 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

An operating segment is a component of an entity that engages in business activities from which it may earn revenues or incur expenses for which discrete financial information is available. The segments are determined based on the group's management and internal reporting structure that are determined by the group's executive directors.

The group's primary segments are as follows:

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

There are no secondary segments.

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.

Segments 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 and liabilities comprise those assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Unallocated items comprise mainly head office expenses and income tax assets and liabilities.

### 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.

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.

### 1.16 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 3 Business Combinations (Amendment – Definition of a Business)**

As a result of the post-implementation review of IFRS 3, these amendments modify the definition of a business. These changes will result in fewer acquisitions being accounted for as a business combination within the scope of IFRS 3. The amendments also introduce an optional “concentration test” that permits a simplified assessment of whether an acquired set of activities and assets is a business. These amendments in IFRS 3 did not have any impact on the amounts recognised in the group’s current and prior periods.

#### **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of material:**

The amendments clarify and align the definition of “material” and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS. The impact of this amendment was not material on the group.

### 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 2021 or later periods. None of these standards, amendments and interpretations are expected to have a material impact on the results of the group.

# Notes to the annual financial statements continued

for the year ended 30 June 2021

Standard/Interpretation	Effective date – years beginning on or after
IFRS 3 <i>Business Combinations</i> – Reference to the Conceptual Framework	1 January 2022
IFRS 9 <i>Financial Instruments</i> – Annual Improvements to IFRS Standards 2018 – 2020	1 January 2022
IFRS 10 <i>Consolidated Financial Statements</i> – 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 <i>Presentation of Financial Statements</i> – Classification of Liabilities as Current or Non-current	1 January 2023
IAS 16 <i>Property, Plant and Equipment</i> – Proceeds before intended use	1 January 2022
IAS 28 <i>Investments in Associates and Joint Ventures</i> – 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 <i>Provisions, Contingent Liabilities and Contingent Assets</i> – Onerous Contracts/Cost of Fulfilling a Contract	1 January 2022

	GROUP	
	2021 R'000	2020 R'000
<b>2. Investment property</b>		
<b>Net carrying value</b>		
Cost	4 260 561	4 212 266
Fair value surplus	335 154	243 656
	<b>4 595 715</b>	<b>4 455 922</b>
<b>Movement for the year</b>		
Investment properties at the beginning of the year	4 455 922	4 612 554
Acquisition and development of investment property	53 999	75 600
Transfer to property under development	–	(77 979)
Transfer to non-current assets held for sale	(6 500)	(47 500)
Change in fair value	91 498	(106 282)
Tenant installations	796	(471)
Capitalised	1 546	–
Amortised	(750)	(471)
<b>Balance at the end of the year</b>	<b>4 595 715</b>	<b>4 455 922</b>
<b>Reconciliation to independent valuation</b>		
Investment property at valuation	4 595 715	4 455 922
Straight-line rental income accrual	(64 365)	(38 522)
	<b>4 531 350</b>	<b>4 417 400</b>

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 No 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.

# Notes to the annual financial statements continued

for the year ended 30 June 2021

## 2. Investment property continued

### Significant unobservable inputs

Significant unobservable inputs include the financial information used to calculate the forecast net income, including exit capitalisation rates, future growth in revenue, operating costs and discount rates.

	GROUP				
	Capitali- sation rates %	Rental growth rates %	Operating expense growth rates %	Discount rates %	Vacancy rates %
<b>As at 30 June 2021</b>					
Industrial	9,46	6,50	11,36	14,92	0,77
Retail	8,75	6,16	8,66	14,24	1,30
Office	9,86	5,01	10,75	15,43	3,65
Specialised	8,25	5,29	4,48	12,25	–
Residential	10,00	6,26	6,51	15,25	3,00
Portfolio average	9,12	6,14	9,50	14,54	1,36
<b>As at 30 June 2020</b>					
Industrial	9,61	6,78	8,39	15,11	0,58
Retail	8,76	7,40	7,98	14,31	1,28
Office	9,64	6,91	7,45	15,21	1,87
Specialised	8,58	6,08	6,73	14,00	0,50
Residential	10,00	6,40	6,32	15,50	3,00
Portfolio average	9,18	7,07	7,99	14,71	1,13

### 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.

First mortgage bonds have been registered over investment property valued at R4,235 billion (2020: R4,248 billion) as security for interest-bearing borrowings of R1,828 billion (2020: R1,766 billion) (note 15).

	GROUP	
	2021 R'000	2020 R'000
<b>3. Straight-line rental income accrual</b>		
Balance at the beginning of the year	(38 522)	(25 679)
Arising during the year	(25 843)	(12 843)
<b>Balance at the end of the year</b>	<b>(64 365)</b>	<b>(38 522)</b>
<b>4. Property under development</b>		
<b>At cost</b>		
Balance at the beginning of the year	89 462	–
Transfer from investment property	–	77 979
Development costs	18 250	11 029
Capitalised borrowing costs	1 530	454
	<b>109 242</b>	<b>89 462</b>

Over and above Heriot's investment property portfolio, the group owns two properties under development, one of which is being redeveloped into student accommodation and the other, into residential space, to enhance their values and to maximise returns on these well-located properties.

The properties have been bonded in favour of Nedbank Limited as security for interest-bearing borrowings (note 15).



Notes to the annual financial statements continued  
for the year ended 30 June 2021

		GROUP	
		2021 R'000	2020 R'000
<b>5. Property, plant and equipment</b>			
Property		23 190	23 695
Cost		25 226	25 226
Accumulated depreciation		(2 036)	(1 531)
Computer equipment		573	213
Cost		1 016	400
Accumulated depreciation		(443)	(187)
Motor vehicles		75	196
Cost		731	935
Accumulated depreciation		(656)	(739)
Furniture, fittings and equipment		3 256	1 899
Cost		4 102	2 321
Accumulated depreciation		(846)	(422)
		27 094	26 003

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

		GROUP	
		2021 R'000	2020 R'000
<b>5.1 Movement for the year</b>			
Balance at beginning of year		26 003	25 312
Additions		2 397	1 748
Owner occupied property		—	505
Computers		616	260
Furniture, fittings and equipment		1 781	983
Depreciation for the year		(1 306)	(1 057)
Owner occupied property		(505)	(501)
Computers		(256)	(99)
Furniture, fittings and equipment		(424)	(272)
Motor vehicles		(121)	(185)
		27 094	26 003

	Holding %	COMPANY	
		Carrying amount 2021 R'000	Carrying amount 2020 R'000
<b>6. Investment in subsidiaries</b>			
Bait Away Trading Proprietary Limited <sup>^</sup>	100	25 550	25 452
Beneficial Interest in Heriot Trust No. 1 <sup>^</sup>	100	87 325	93 354
Beneficial Interest in Heriot Trust No. 3 <sup>^</sup>	100	71 625	71 625
Chasie Investments Proprietary Limited *	100	49 085	49 085
Croszie Proprietary Limited <sup>^</sup>	100	–	–
Fin Properties 107 Proprietary Limited <sup>^</sup>	100	24 180	93 323
Heriot Properties International Proprietary Limited <sup>^</sup>	90	158 135	158 135
Heriot Properties Proprietary Limited <sup>^</sup>	100	1 515 451	1 515 451
Heriot Properties West Proprietary Limited <sup>^</sup>	100	76 900	73 278
Moditouch Proprietary Limited <sup>^</sup>	50	16 594	17 904
Phokeng Mall Proprietary Limited <sup>^</sup>	100	133 134	132 155
Terrace Drive Properties 34 Proprietary Limited <sup>^</sup>	100	200 736	200 736
Tiger Stripes Investments 31 Proprietary Limited <sup>^</sup>	100	1 713	3 572
		<b>2 360 428</b>	<b>2 434 070</b>
<b>Movement for the year</b>			
Balance at the beginning of the year		2 434 070	2 485 490
Net impairment losses		(73 642)	(51 420)
Bait Away Trading Proprietary Limited		98	(4 583)
Beneficial Interest in Heriot Trust No. 1		(6 029)	(6 305)
Croszie Proprietary Limited		–	(5 320)
Fin Properties 107 Proprietary Limited		(69 143)	(2 000)
Heriot Properties West Proprietary Limited		3 622	(29 647)
Moditouch Proprietary Limited		(1 310)	–
Phokeng Mall Proprietary Limited		979	(979)
Tiger Stripes Investments 31 Proprietary Limited		(1 859)	(2 586)
		<b>2 360 428</b>	<b>2 434 070</b>

<sup>^</sup> 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. Any increase or decrease in impairment losses for the year is as a result of a change in the fair value of the investment properties owned by the subsidiaries.

Notes to the annual financial statements continued  
for the year ended 30 June 2021

		GROUP	
		2021 R'000	2020 R'000
<b>7. Investment in associate</b>			
49,5% interest in Fixtrade 605 Proprietary Limited		4 824	7 093
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 (loss)/income for the year		(2 269)	266
Aggregate carrying amount of the group's interest in the associate		4 824	7 093
<b>Movement for the year</b>			
Balance at the beginning of the year		7 093	7 427
Equity accounted results per the statement of comprehensive income		(2 269)	(334)
Share of (loss)/profit		(2 269)	266
Dividends received		–	(600)
<b>Balance at the end of the year</b>		<b>4 824</b>	<b>7 093</b>

		GROUP		COMPANY	
		2021 R'000	2020 R'000	2021 R'000	2020 R'000
<b>8. Financial assets</b>					
Loans to participants of the employee share scheme (note 8.1)		35 041	35 359	35 041	35 359
Loan to related party (note 8.2)		50 311	45 621	–	–
Investment in listed shares (note 8.3)		38 475	–	–	–
Loan to subsidiaries (net of allowance for impairment) (note 8.4)		–	–	535 341	9 995
		123 827	80 980	570 382	45 354
Less: Short-term portion		(50 311)	(45 621)	(137 889)	(9 995)
		73 516	35 359	432 493	35 359

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
<b>8. Financial assets</b> continued				
<b>Movement for the year</b>				
<i>Loans to participants of the employee share scheme</i>				
Balance at the beginning of the year	35 359	35 130	35 359	35 130
Loans repaid during the year	(2 474)	(2 749)	(2 474)	(2 749)
Interest received	2 156	2 978	2 156	2 978
<b>Balance at the end of the year</b>	<b>35 041</b>	<b>35 359</b>	<b>35 041</b>	<b>35 359</b>
<i>Loan to related party</i>				
Balance at the beginning of the year	45 621	43 318		
Advanced during the year	5 079	7 043		
Repaid during the year	(389)	(4 740)		
<b>Balance at the end of the year</b>	<b>50 311</b>	<b>45 621</b>		
<i>Investment in listed shares</i>				
Balance at the beginning of the year	–	–		
Acquisition – 8 550 000 shares in Safari Investments	29 925	–		
Fair value adjustment	8 550	–		
<b>Balance at the end of the year</b>	<b>38 475</b>	<b>–</b>		
<i>Loans to subsidiaries</i>				
Balance at the beginning of the year			9 995	35 487
Transferred from loans from subsidiaries (note 18)			(154 420)	–
Interest-bearing loans acquired from subsidiary			732 650	
Advanced during the year			58 318	–
Repaid during the year			(122 315)	–
Interest charged			8 201	–
Balance before allowance for expected credit losses			532 429	35 487
Allowance for expected credit losses			2 912	(25 492)
<b>Balance at the end of the year</b>			<b>535 341</b>	<b>9 995</b>

# Notes to the annual financial statements continued

for the year ended 30 June 2021

## 8. Financial assets continued

**8.1** Loans due from participants of the employee share scheme arose on the acquisition of Heriot shares by employees at the listing price of R10 per share. The loans are subject to the following conditions:

- The loans bear interest at the group's average cost of borrowings of 6,32% 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 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 expected credit loss considerations relating to the loans were the share price, interest rates and historic and projected dividends. As the market value of each Heriot share of R11,50 exceeds the carrying amount of R10,71 owed by each participant of the employee share scheme and projected dividends exceed the expected interest repayments, the credit risk relating to the loans has not increased. Accordingly, on the basis of a 12-month expected credit loss assessment, no credit loss allowance has been provided for.

**8.2** The loan to the related party is unsecured, bears interest at the group's average cost of borrowings of 6,32% per annum and is repayable on demand. At year end, the expected credit risk relating to the loan has not increased significantly. This assessment has been based on the fact that the loan is recoverable from the ultimate majority shareholder of the company, being a family trust of SB Herring. The expected loss considerations relating to the loan were the share price and historic and projected dividends from the company. Accordingly, on the basis of a 12-month expected credit loss assessment, no credit loss allowance has been provided for.

**8.3** The fair value of listed investments is determined using the closing market price on the relevant exchange.

**8.4** Loans to subsidiaries of R145,5 million bear interest at variable rates while loans of R389,8 million are interest free. Other than a loan of R137,9 million that is repayable on demand, the loans are repayable within periods of two to four years from the reporting date.

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. 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.

## 8. Financial assets continued

The table below presents the expected credit loss rates applied to each loan:

		2021		
	Basis of expected credit loss ("ECL")	Gross carrying value of loans R'000	Loss allowance (lifetime ECL) R'000	Net carrying value of loans R'000
<b>2021</b>				
Bait Away Trading Proprietary Limited	12-month ECL	16 211	–	16 211
Chasie Investments Proprietary Limited	12-month ECL	24 388	–	24 388
Crosie Proprietary Limited	Lifetime ECL	57 150	(22 580)	34 570
Fin Properties 107 Proprietary Limited	12-month ECL	116 724	–	116 724
Heriot Properties Proprietary Limited	12-month ECL	137 889	–	137 889
Heriot Properties International Proprietary Limited	12-month ECL	99 588	–	99 588
Heriot Properties West Proprietary Limited	12-month ECL	84 407	–	84 407
Heriot Trust No. 3	12-month ECL	21 564	–	21 564
		557 921	(22 580)	535 341
<b>2020</b>				
Crosie Proprietary Limited	Lifetime ECL	28 533	(25 492)	3 041
Heriot Trust No. 1	12-month ECL	376	–	376
Heriot Trust No. 3	12-month ECL	200	–	200
HP10 Investments Proprietary Limited	12-month ECL	4 284	–	4 284
Terrace Drive Properties 34 Proprietary Limited	12-month ECL	2 094	–	2 094
		35 487	(25 492)	9 995
		30 June 2021 R'000	30 June 2020 R'000	
<b>Reconciliation of loss allowances</b>				
Balance at the beginning of the year		(25 492)	–	
Adjustment in loss allowance recognised in profit and loss for the year		2 912	(25 492)	
<b>Balance at the end of the year</b>		(22 580)	(25 492)	

# Notes to the annual financial statements continued

for the year ended 30 June 2021

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
<b>9. Trade and other receivables</b>				
<b>Financial instruments</b>				
Gross trade receivables	9 426	22 730	—	—
COVID-19 rental relief	—	(11 312)	—	—
Trade receivables	9 426	11 418	—	—
ECL allowance for credit losses	(4 426)	(2 621)	—	—
Net trade receivables	5 000	8 797	—	—
Municipal deposits	7 828	7 161	—	—
Deposit for property to be acquired	—	4 000	—	—
Management fees*	15 758	6 122	—	—
Other receivables**	2 581	3 666	—	—
<b>Non-financial instruments</b>				
Prepayments	3 833	2 992	20	19
	35 000	32 738	20	19

\* Comprises fees and reimbursement of costs due for the management and development of a portfolio of properties in Zambia and the DRC. Post year end, approximately 85% of the receivable has been recovered. On this basis, the assessment of the credit risk relating to this receivable is that the risk has not increased significantly. Accordingly, on the basis of a 12-month expected credit loss assessment, no credit loss allowance has been provided for.

\*\* Other receivables includes an amount of R0,4 million (2020: 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 are continuously monitored.

There have been no significant changes in the credit risk management policies and processes since the prior reporting year.

## 9.1 Credit quality of trade and other receivables

A loss allowance is recognised for all trade receivables in accordance with IFRS 9 *Financial Instruments* and is monitored at the end of each reporting year. The loss allowance is measured using the general approach. Under this approach, a loss allowance for lifetime expected credit losses is recognised if there has been a significant increase in credit risk since initial recognition. If, at the reporting date, the credit risk has not increased significantly, a loss allowance for the 12-month expected credit loss is recognised.

## 9. Trade and other receivables continued

### 9.1 Credit quality of trade and other receivables continued

Trade receivables are categorised by tenant type to determine the risk related to the receivable, and therefore the probability of default. Tenant collateral in the form of tenant deposits or bank guarantees have also been taken into account in calculating the expected credit loss. In addition, consideration is given to the fact that certain entities, particularly the South African government, may be slow or irregular payers and therefore, a typical arrears or default provision is not necessarily held in such cases. Expected credit losses are estimated using a provision matrix that has been developed by making use of past default experience of debtors and also incorporates forward-looking information and general economic conditions of the industry.

In considering past default events, the following is taken into account:

- The probability that future rental will be paid considering the payment history;
- Collateral held in the form of deposits or guarantees held; and
- Historical information relating to legal proceedings.

Arrears aged 90 days and over are in most instances deemed to be irrecoverable.

In considering forward-looking information, consideration is given to the segments in which the tenants operate, post year end collections and the broader economic environment, both locally and internationally.

In addition to the loss allowance, trade and other receivables are written off when there is no reasonable expectation of recovery, for instance, when a debtor has been placed under liquidation.

An impairment gain or loss is recognised in profit or loss with a corresponding adjustment to the carrying amount of trade and other receivables through use of a loss allowance account. The impairment loss is included in other operating expenses in profit or loss as a movement in the credit loss allowance. The loss allowance provision is determined as follows:

	GROUP			
	Estimated gross carrying value at default 2021 R'000	Loss allowance (12-month expected credit loss) 2021 R'000	Estimated gross carrying value at default 2020 R'000	Loss allowance (12-month expected credit loss) 2020 R'000
Not past due: 0% (2020: 0%)	2 793	–	7 261	–
30 days past due: 0% (2020: 23%)	1 368	–	2 006	(470)
60 days past due: 21% (2020: 100%) <sup>^</sup>	1 065	(226)	618	(618)
More than 90 days: 100% (2020: 100%)	4 200	(4 200)	1 533	(1 533)
	9 426	(4 426)	11 418	(2 621)

<sup>^</sup> 2021 includes a high percentage of amounts due from government tenants. A typical arrears or default provision is not necessarily held in such cases.



# Notes to the annual financial statements continued

for the year ended 30 June 2021

## 9. Trade and other receivables continued

### 9.1 Credit quality of trade and other receivables continued

	GROUP	
	30 June 2021 R'000	30 June 2020 R'000
<b>Reconciliation of loss allowances</b>		
Balance at the beginning of the year	(2 621)	(600)
Increase in loss allowance recognised in profit and loss for the year	(1 805)	(2 021)
<b>Balance at the end of the year</b>	<b>(4 426)</b>	<b>(2 621)</b>

No further COVID-19 relief discounts were granted to tenants during the year.

Shoprite Checkers and Mpact Limited are the group's only major customers, contributing R44,0 million and R44,8 million respectively to rental income for the year ended 30 June 2021, equating to 10,4% and 10,6% of total revenue for the year under review (2020: 10,8% and 10,7% respectively).

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
<b>10. Dividends receivable</b>				
Comprises dividends receivable from subsidiaries	–	–	199 334	214 226

The credit risk relating to dividends receivable from subsidiaries has not increased significantly. The subsidiaries own income-generating properties, are solvent and based on past experience, dividends declared to the company are paid annually. Accordingly, on the basis of a 12-month expected credit loss assessment, no credit loss allowance has been provided for.

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
<b>11. Cash and cash equivalents</b>				
For purposes of the cash flow statement, cash and cash equivalents comprise:				
Bank balances	110 300	86 258	96 125	4

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	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
<b>12. Non-current assets held for sale</b>				
Non-current assets held for sale	6 500	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 Heriot's 50% undivided share in an industrial property in Kimberley that was sold for R6,5 million but for which transfer was pending at the reporting date.

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
<b>13. Stated capital</b>				
<b>Authorised</b>				
2 000 000 000 ordinary shares of no par value				
<b>Issued</b>				
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	
		2021 R'000	2020 R'000
<b>14. Non-controlling interests ("NCI")</b>			
Moditouch Proprietary Limited	50%	16 645	18 733
Heriot Properties International Proprietary Limited	10%	24 247	22 944
Hagley 3865 Proprietary Limited	45%	2 501	(484)
60 Adderley Proprietary Limited	40%	3 156	3 951
		46 549	45 144
<b>Movement for the year</b>			
Balance at the beginning of the year		45 144	44 875
Share of profits for the year		9 371	5 348
Distributable profits		7 817	4 653
Non-distributable profits		1 554	695
Dividends declared to minorities		(7 966)	(5 079)
<b>Balance at the end of the year</b>		46 549	45 144

**14. Non-controlling interests** continued

**Moditouch Proprietary Limited**

With effect from 5 June 2017, the group acquired a 50% equity interest in Moditouch Proprietary Limited ("Moditouch"), 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 2021 R'000	30 June 2020 R'000
<b>Movement for the year</b>		
Balance at the beginning of the year	18 733	22 312
Share of profits for the year	2 626	(334)
Distributable profits	4 626	3 166
Non-distributable profits	(2 000)	(3 500)
Dividends declared to minorities	(4 714)	(3 245)
<b>Balance at the end of the year</b>	<b>16 645</b>	<b>18 733</b>

**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 2021 R'000	30 June 2020 R'000
<b>Movement for the year</b>		
Balance at the beginning of the year	22 945	21 794
Share of profits for the year	3 204	2 601
Distributable profits	1 837	1 422
Non-distributable profits	1 367	1 179
Dividends declared to minorities	(1 902)	(1 450)
<b>Balance at the end of the year</b>	<b>24 247</b>	<b>22 945</b>

#### 14. 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 2021 R'000	30 June 2020 R'000
<b>Movement for the year</b>		
Balance at the beginning of the year	(484)	769
Share of profits for the year	2 985	(1 253)
Distributable profits	(1)	(250)
Non-distributable profits	2 986	(1 003)
Dividends declared to minorities	–	–
<b>Balance at the end of the year</b>	<b>2 501</b>	(484)

##### 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 2021 R'000	30 June 2020 R'000
<b>Movement for the year</b>		
Balance at the beginning of the year	3 951	–
Share of profits for the year	555	4 336
Distributable profits	1 355	316
Non-distributable profits	(800)	4 020
Dividends declared to minorities	(1 350)	(385)
<b>Balance at the end of the year</b>	<b>3 156</b>	3 951

Notes to the annual financial statements continued  
for the year ended 30 June 2021

	GROUP		COMPANY	
	30 June 2021 R'000	30 June 2020 R'000	30 June 2021 R'000	30 June 2020 R'000
<b>15. Interest-bearing liabilities</b>				
<b>Nedbank Limited</b>	<b>832 719</b>	802 496	<b>740 045</b>	–
<b>Facility 1</b>				
Interest only facility bearing interest at 1,5% below the prime bank overdraft rate;	–	710 000	–	–
Interest only facility of R430,0 million bearing interest at 3 month JIBAR plus 155 bps and repayable on 1 July 2022; and	<b>430 000</b>	–	<b>430 000</b>	–
Interest only facility of R325,0 million bearing interest at 3 month JIBAR plus 169 bps and repayable on 1 July 2024.	<b>310 045</b>	–	<b>310 045</b>	–
The facilities are secured by first mortgage bonds over investment property valued at R1,984 billion.				
<b>Facility 2</b>				
The interest only facility bears interest at the prime bank overdraft rate, is secured by a first mortgage bond over investment property valued at R37,5 million and is repayable on 31 March 2022.	<b>31 024</b>	30 846	–	–
<b>Facility 3</b>				
The interest only facility bears interest 0,5% below the prime bank overdraft rate, is secured by a first mortgage bond over investment property valued at R70,0 million and is repayable on 3 September 2024.	<b>61 650</b>	61 650	–	–

	GROUP		COMPANY	
	30 June 2021 R'000	30 June 2020 R'000	30 June 2021 R'000	30 June 2020 R'000
<b>15. Interest-bearing liabilities</b> continued				
<b>Standard Bank</b>	616 000	616 000	–	–
<b>Facility 1</b>				
Interest only facility bearing interest at a rate of prime less 1,52%; and	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 expires on 14 January 2022 and is secured by first covering mortgage bonds over investment property valued at R827,8 million. Post year end, the facility was refinanced with Standard Bank for a period of three years – R350,0 million facility at a rate of 3 month JIBAR plus a margin of 195 bps and R50 million revolver at 140 bps below the prime bank overdraft rate.				
<b>Facility 2</b>				
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 R168,0 million and is repayable on 30 September 2022.	145 000	145 000	–	–
<b>Facility 3</b>				
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 R106,0 million and is repayable on 29 April 2023.	71 000	71 000	–	–
<b>Rand Merchant Bank Limited</b>				
The interest only facility bears interest at a rate of 1 month JIBAR plus 185 bps, is secured by a first mortgage bond over investment property valued at R715,0 million and is repayable on 31 October 2022.	164 000	132 185	–	–
<b>Sanlam Capital Markets Proprietary Limited</b>				
The interest only facility bears interest at a rate of 3 month JIBAR plus 180 bps, is secured by a first mortgage bond over investment property valued at R353,7 million and is repayable on 4 August 2025.	215 570	215 570	–	–
	1 828 289	1 766 251	740 045	–
Less: Short-term portion of interest-bearing borrowings	(431 024)	(132 185)	–	–
	1 397 265	1 634 066	740 045	–

At the reporting date, the group had unutilised facilities of R16,0 million.

Notes to the annual financial statements continued  
for the year ended 30 June 2021

	GROUP	
	2021 R'000	2020 R'000
<b>16. Derivative financial instrument</b>		
Interest rate swap	5 905	17 676
Less: short term portion of derivative instrument	(5 905)	–
	–	17 676
Nominal value (R'000)	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.		
<b>Movement for the year</b>		
Balance at the beginning of the year	17 676	6 304
Movement for the year	(11 771)	11 372
	5 905	17 676
<b>17. Deferred taxation</b>		
Capital allowances	76 958	76 650
Prepayments	(13 226)	(13 226)
	63 732	63 424
<b>Movement for the year</b>		
Balance at the beginning of the year	63 424	63 116
Per statement of comprehensive income		
– Arising on capital allowances in current year	308	308
<b>Balance at the end of the year</b>	<b>63 732</b>	<b>63 424</b>

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	
	2021 R'000	2020 R'000
<b>18. Other financial liabilities</b>		
<b>Loans from subsidiaries</b>		
Heriot Properties Proprietary Limited	–	153 790
Tembisa Mall Proprietary Limited	–	630
	–	154 420
<b>Movement for the year</b>		
Balance at beginning of year	154 420	152 266
Advanced during the year	–	8 235
Repaid during the year	–	(6 081)
Transferred to loans to subsidiaries (note 8)	(154 420)	–
<b>Balance at the end of the year</b>	–	154 420

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

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
<b>19. Trade and other payables</b>				
<b>Financial instruments</b>				
Accrued interest	12 470	8 504	9 641	–
Accrued expenses	33 048	25 794	33	10
Tenant deposits	10 660	8 334	–	–
Other payables	3 630	2 180	–	–
Dividend payable to minorities	7 826	5 519	–	–
<b>Non-financial instruments</b>				
Rent received in advance	13 500	12 479	–	–
Value added taxation	4 483	4 219	–	–
	85 617	67 029	9 674	10
<b>20. Contractual rental income</b>				
Rent	424 558	414 584	–	–
Gross rent – IFRS 16	424 558	425 896	–	–
COVID-19 rental relief	–	(11 312)	–	–
Dividends received	–	–	261 535	214 138
Recoveries – IFRS 15	105 419	106 347	–	–
	529 977	520 931	261 535	214 138
Straight-line rental income accrual	(25 843)	(12 843)	–	–
	504 134	508 088	261 535	214 138

No further COVID-19 relief discounts were granted to tenants during the year.



Notes to the annual financial statements continued  
for the year ended 30 June 2021

	GROUP	
	2021 R'000	2020 R'000
<b>21. Other income</b>		
Management fees	8 468	7 560
Penalty for early settlement of lease	–	5 000
Dividends on listed shares	1 454	–
Other	128	395
	<b>10 050</b>	<b>12 955</b>

	COMPANY	
	2021 R'000	2020 R'000
<b>22. Impairment loss</b>		
Impairment loss – investment in subsidiaries (refer note 6)	73 642	51 420
Expected credit loss allowance adjustment – loans to subsidiaries (refer note 8)	(2 912)	25 492
	<b>70 730</b>	<b>76 912</b>

	GROUP	
	2021 R'000	2020 R'000
<b>23. Profit from operations</b>		
Net operating profit includes the following items:		
<b>Charges</b>		
Audit fees	976	1 296
External auditor – audit fees	850	815
External auditor – components	(141)	197
External auditor – non-audit fees	267	284
Amortisation and depreciation	2 056	1 528
Management fees	682	556
Staff costs	29 929	29 081

	GROUP	
	2021 R'000	2020 R'000
<b>24. Directors' emoluments</b>		
<b>Fees paid to non-executive directors</b>		
SB Herring ( <i>Chairman</i> )	375	325
SJ Blieden	350	325
TJ Cohen	350	325
R Lockhart-Ross	400	250
N Ngale	225	250
	<b>1 700</b>	<b>1 475</b>
<b>Fees paid to executive directors</b>		
RL Herring ( <i>CEO</i> )	5 030	4 842
Salaries and allowances	4 221	4 115
Bonus	809	727
JA Finn ( <i>CFO</i> )	4 264	4 200
Salaries and allowances	3 562	3 473
Bonus	702	727
	<b>9 294</b>	<b>9 042</b>

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
<b>25. Finance charges</b>				
Secured borrowings	114 042	144 584	38 597	–
Other	1 903	2 153	–	–
Finance charges for the year	115 945	146 737	38 597	–
Capitalised	(1 530)	(454)	–	–
	<b>114 415</b>	<b>146 283</b>	<b>38 597</b>	<b>–</b>
<b>26. Finance income</b>				
Interest received – bank	4 233	3 835	966	–
Related party loan	5 002	3 721	8 201	–
Other	928	3 432	2 156	3 074
	<b>10 163</b>	<b>10 988</b>	<b>11 323</b>	<b>3 074</b>

Notes to the annual financial statements continued  
for the year ended 30 June 2021

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
<b>27. Fair value adjustments</b>				
Unrealised gain/(loss) on revaluation of investment property	91 498	(106 282)	–	–
Unrealised gain on revaluation of investment in listed securities	8 550	–	–	–
Unrealised gain/(loss) on revaluation of interest rate swap	11 771	(11 372)	–	–
	111 819	(117 654)	–	–
<b>28. Taxation</b>				
Normal taxation				
Current	1 539	1 406	–	–
Deferred				
Current	308	308	–	–
	1 847	1 714	–	–
<b>Reconciliation of taxation charge</b>				
Profit before taxation	324 245	89 771	161 048	138 132
Tax at the applicable rate 28%	90 789	25 136	45 093	38 677
Taxation effect of:				
Qualifying distributions	(66 954)	(61 635)	(64 897)	(60 212)
Impairment loss	–	–	19 804	21 535
Fair value adjustments	(31 309)	32 943	–	–
Straight-line rental income accrual	7 236	3 596	–	–
Equity accounted profits (net of taxation)	635	94	–	–
Namibian subsidiary	362	415	–	–
Tax rate differential	168	186	–	–
Withholding tax on interest	194	229	–	–
Non-deductible expenditure	1 091	886	–	–
Income in advance	142	(244)	–	–
Allowance for doubtful debts	379	452	–	–
Prepayments	(709)	–	–	–
Unutilised tax losses	185	71	–	–
	1 847	1 714	–	–

	GROUP	
	2021 R'000	2020 R'000
<b>29. Earnings and headline earnings</b>		
<b>Reconciliation of basic earnings to headline earnings</b>		
Profit attributable to Heriot shareholders	313 027	82 710
Change in fair value of investment properties attributable to Heriot shareholders	(89 944)	106 977
Change in fair value of investment properties	(91 498)	106 282
Attributable to non-controlling shareholders	1 554	695
<b>Headline earnings attributable to Heriot shareholders</b>	<b>223 083</b>	189 687
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
Basic earnings per share (cents)	122,57	32,39
Headline earnings per share (cents)	87,35	74,27

\* Excludes 900 000 treasury shares.

There are no dilutive instruments in issue.

### 30. Notes to the cash flow statement

#### 30.1 The following convention applies to figures other than adjustments

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

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
<b>30.2 Cash generated from operations</b>				
Profit before taxation	324 245	89 771	161 048	138 132
Adjusted for:				
Non-cash items	(83 807)	128 782	(201 162)	(140 204)
Fair value adjustments	(111 819)	117 654	–	–
Impairment losses	–	–	70 730	76 912
Straight-line rental income accrual	25 843	12 843	–	–
Dividends received	–	–	(261 535)	(214 138)
Equity accounted losses/(profits) (net of taxation)	2 269	(266)	–	–
Interest received on loans to participants of the employee share scheme	(2 156)	(2 978)	(10 357)	(2 978)
Depreciation and amortisation	2 056	1 529	–	–
Finance charges	114 415	146 283	38 597	–
Finance income	(10 163)	(10 988)	(966)	(3 074)
Operating profit before working capital changes	344 690	353 848	(2 483)	(5 146)
Working capital changes	10 052	2 204	22	1
Trade and other receivables	(2 262)	(1 161)	(1)	(2)
Trade and other payables	12 314	3 365	23	3
<b>Cash generated from operations</b>	<b>354 742</b>	<b>356 052</b>	<b>(2 461)</b>	<b>(5 145)</b>

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
<b>30. Notes to the cash flow statement</b> continued				
<b>30.3 Dividends received</b>				
Balance at the beginning of the year	–	–	214 226	207 726
Dividends declared by subsidiaries for the year	–	–	261 535	214 138
Dividends owing at the end of the year	–	–	(199 334)	(214 226)
<b>Movement for the year</b>	<b>–</b>	<b>–</b>	<b>276 427</b>	<b>207 638</b>
<b>30.4 Taxation paid</b>				
Taxation in advance at the beginning of the year	14	1 093	–	–
Taxation for the year	(1 539)	(1 406)	–	–
Tax payable/(in advance) at the end of the year	29	(14)	–	–
<b>Taxation paid during the year</b>	<b>(1 496)</b>	<b>(327)</b>	<b>–</b>	<b>–</b>

	GROUP		
	Long-term borrowings	Short-term borrowings	Total
<b>30.5 Reconciliation of liabilities arising from financial activities</b>			
<b>Balance as at 30 June 2019</b>	914 734	710 000	1 624 734
Proceeds	141 063	–	141 063
Capitalised interest	454	–	454
Reclassification	577 815	(577 815)	–
<b>Balance as at 30 June 2020</b>	<b>1 634 066</b>	<b>132 185</b>	<b>1 766 251</b>
Repayment	(30 000)	–	(30 000)
Proceeds	92 038	–	92 038
Reclassification	(298 839)	298 839	–
<b>Balance as at 30 June 2021</b>	<b>1 397 265</b>	<b>431 024</b>	<b>1 828 289</b>
	COMPANY		
	Long-term borrowings	Short-term borrowings	Total
<b>Balance as at 30 June 2019/2020</b>	–	–	–
Proceeds	7 395	–	7 395
<b>Balance as at 30 June 2021</b>	<b>7 395</b>	<b>–</b>	<b>7 395</b>

Notes to the annual financial statements continued  
for the year ended 30 June 2021

	GROUP	
	2021 R'000	2020 R'000
<b>31. Commitments</b>		
<b>Operating expense commitments</b>		
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	17 005	12 181
– Due two to five years	–	–
	<b>17 005</b>	<b>12 181</b>

**32. Minimum lease payments receivable**

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 financial statements.

– Receivable within one year	389 071	408 479
– Receivable two to five years	899 706	1 024 155
– Receivable beyond five years	327 468	340 430
	<b>1 616 245</b>	<b>1 773 064</b>

**33. 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	
	2021 R'000	2020 R'000
<b>Related party balances</b>		
<b>Amounts due from/(to) subsidiaries</b>		
Bait Away Trading Proprietary Limited	16 211	–
Chasie Investments Proprietary Limited	24 388	–
Croszie Proprietary Limited	34 570	28 533
Fin Properties 107 Proprietary Limited	116 724	
Heriot Properties Proprietary Limited	137 889	(153 790)
Heriot Properties International Proprietary Limited	99 588	–
Heriot Properties West Proprietary Limited	84 407	–
Heriot Trust No. 1	–	376
Heriot Trust No. 3	21 564	200
HP10 Investments Proprietary Limited	–	4 284
Terrace Drive Properties 34 Proprietary Limited	–	2 094
Tembisa Mall Proprietary Limited	–	(630)

### 33. Related parties and related party transactions continued

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
<b>Related party balances</b>				
<b>Amounts due from other related parties</b>				
The Gusi Trust – beneficiaries include SB Herring	50 311	–		
Steven Herring Consulting CC – member SB Herring	–	45 621		
RL Herring (CEO)	29 759	9 107		
JCB Herring – shareholder	442	1 771		
<b>Related party transactions</b>				
<b>Interest received</b>				
The Gusi Trust	939	–		
Steven Herring Consulting CC	1 966	3 581		
RL Herring	1 399	767		
JCB Herring	34	140		
Chasie Investments Proprietary Limited			1 895	–
Heriot Properties International Proprietary Limited			5 230	–
Heriot Trust No. 3			1 076	–

Compensation of key management is by way of salary and bonus only, details of which are disclosed in note 24.



# Notes to the annual financial statements continued

for the year ended 30 June 2021

## 34. 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.

### 34.1 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 at year end is set out below:

	GROUP			
	Less than one year R'000	Two to five years R'000	More than five years R'000	Total R'000
<b>As at 30 June 2021</b>				
Interest-bearing borrowings – capital	431 024	1 397 265	–	1 828 289
Interest accrual on interest-bearing borrowings	114 966	189 358	–	304 324
Derivative instrument	5 905	–	–	5 905
Trade and other payables	85 617	–	–	85 617
	<b>637 512</b>	<b>1 586 623</b>	<b>–</b>	<b>2 224 135</b>
<b>As at 30 June 2020</b>				
Interest-bearing borrowings – capital	132 185	1 418 496	215 570	1 766 251
Interest accrual on interest-bearing borrowings	103 108	145 468	2 692	251 268
Derivative instrument	–	17 676	–	17 676
Trade and other payables	67 029	–	–	67 029
	<b>302 322</b>	<b>1 581 640</b>	<b>218 262</b>	<b>2 102 224</b>

Post year end, interest bearing liabilities of R400,0 million, that were expiring in December 2021, were refinanced on favourable terms with Standard Bank (refer note 36).

## 34. Financial risk management continued

### 34.1 Liquidity risk continued

	COMPANY			
	Less than one year R'000	Two to five years R'000	More than five years R'000	Total R'000
<b>As at 30 June 2021</b>				
Interest-bearing borrowings – capital	–	740 045	–	740 045
Interest accrual on interest-bearing borrowings	39 103	33 171	–	72 274
	39 103	773 216	–	812 319

### 34.2 Categories of financial instruments

	GROUP		
	At amortised cost R'000	At fair value through profit or loss R'000	Total R'000
<b>As at 30 June 2021</b>			
<b>Financial assets</b>			
Financial assets – non-current	35 041	38 475	73 516
Trade and other receivables	31 167	–	31 167
Financial assets – current	50 311	–	50 311
Cash and cash equivalents	110 300	–	110 300
	226 819	38 475	265 294
<b>Financial liabilities</b>			
Interest-bearing borrowings	1 828 289	–	1 828 289
Interest accrual on interest-bearing borrowings	304 324	–	304 324
Derivative instruments	–	5 905	5 905
Trade and other payables	67 634	–	67 634
	2 200 247	5 905	2 206 152
<b>As at 30 June 2020</b>			
<b>Financial assets</b>			
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

Notes to the annual financial statements continued  
for the year ended 30 June 2021

34. Financial risk management continued

34.2 Categories of financial instruments continued

	GROUP		
	At amortised cost R'000	At fair value through profit or loss R'000	Total R'000
<b>As at 30 June 2020</b>			
<b>Financial liabilities</b>			
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	50 331	–	50 331
	2 067 850	17 676	2 085 526

	COMPANY		
	At amortised cost R'000	At fair value through profit or loss R'000	Total R'000
<b>As at 30 June 2021</b>			
<b>Financial assets</b>			
Financial assets – non-current	432 493	–	432 493
Financial assets – current	137 889	–	137 889
Cash and cash equivalents	96 125	–	96 125
	666 507	–	666 507
<b>Financial liabilities</b>			
Interest-bearing borrowings	740 045	–	740 045
Interest accrual on interest-bearing borrowings	72 274	–	72 274
Trade and other payables	9 674	–	9 674
	821 993	–	821 993
<b>As at 30 June 2020</b>			
<b>Financial assets</b>			
Financial assets – non-current	35 359	–	35 359
Financial assets – current	9 995	–	9 995
Cash and cash equivalents	4	–	4
	45 358	–	45 358
<b>Financial liabilities</b>			
Trade and other payables	10	–	10
	10	–	10

## 34. Financial risk management continued

### 34.3 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, 16% (2020: 36,7%) of borrowings has been fixed.

An increase/decrease of 1% in the prime interest rate for the year would have increased/decrease the interest expense by R20,5 million (2020: R10,54 million) in respect of the floating portion of the debt.

### 34.4 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:

		GROUP		
	Note	Gross carrying amount R'000	Credit loss allowance adjustment R'000	Amortised cost/fair value R'000
As at 30 June 2021				
Financial assets	8	123 827	–	123 827
Trade and other receivables	9	35 593	(4 426)	31 167
Cash and cash equivalents	11	110 300	–	110 300
		269 720	(4 426)	265 294
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	11	86 258	–	86 258
		199 605	(2 621)	196 984

### 34.5 Fair value hierarchy for financial instruments and investment property

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

The fair value hierarchy has the following levels:

Level 1 – fair value is determined from quoted prices (unadjusted) in active markets for identical asset 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).

# Notes to the annual financial statements continued

for the year ended 30 June 2021

## 34. Financial risk management continued

### 34.5 Fair value hierarchy for financial instruments and investment property continued

	GROUP			
	Fair value R'000	Level 1 R'000	Level 2 R'000	Level 3 R'000
<b>As at 30 June 2021</b>				
<b>Assets</b>				
Investment properties	4 531 350	–	–	4 531 350
Non-current assets held for sale	6 500	–	–	6 500
Financial assets – listed shares	38 475	38 475	–	–
	4 576 325	38 475	–	4 537 850
<b>Liabilities</b>				
Derivative instrument	5 905	–	5 905	–
	5 905	–	5 905	–
<b>As at 30 June 2020</b>				
<b>Assets</b>				
Investment properties	4 417 400	–	–	4 417 400
Non-current assets held for sale	47 500	–	–	47 500
	4 464 900	–	–	4 464 900
<b>Liabilities</b>				
Derivative instrument	17 676	–	17 676	–
	17 676	–	17 676	–

## 35. 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	
	2021 R'000	2020 R'000
As at the reporting date, the group's loan-to-value ratio, net of cash, was:		
Property assets	4 708 757	4 578 057
Investment property	4 531 350	4 417 400
Property under development	109 242	89 462
Non-current assets held for sale	6 500	47 500
Owner occupied property	23 190	23 695
Financial assets – shares in listed REIT	38 475	–
Interest-bearing borrowings	1 828 289	1 766 251
Loan to value (%)	38,8	38,6
Interest-bearing borrowings net of cash	1 717 989	1 679 993
Loan to value (net of cash) (%)	36,5	36,7

## 36. Events after the balance sheet date

The following significant events have occurred post the reporting date:

- The refinancing of the Standard Bank debt of R400,0 million as detailed in note 15 of this report;
- The acquisition of 50 078 280 shares in Safari Investments, increasing Heriot's holding to 18,86% of Safari;
- An agreement for the disposal of the Mpact Nelspruit property for R77,0 million, which is in line with the valuation of this property at 30 June 2021; and
- An agreement for the purchase of Shoprite Emmarentia for R58,0 million.

## 37. Prior period errors

### 37.1 Company statement of cash flows

The company's statement of cash flows has been restated to reflect dividends received on the face of the cash flow statement as opposed to including dividends received in working capital movements. The effect of the restatement is as follows:

	Restated R'000	Previously reported R'000
Cash generated from operations	(5 145)	202 493
Finance income	3 074	3 074
Dividends received	207 638	–
<b>Net cash generated from operating activities</b>	<b>205 567</b>	205 567

### 37.2 Trade and other payables

Rent received in advance has been reclassified from financial liabilities to non-financial liabilities within the trade and other payables note (note 19).

## 38. 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. 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 financial statements have been prepared on a going concern basis.

# Notes to the annual financial statements continued

for the year ended 30 June 2021

## 39. Segmental analysis

	GROUP						Total R'000
	Retail R'000	Indus- trial R'000	Office R'000	Specia- lised R'000	Resi- dential R'000	Other R'000	
<b>Year ended 30 June 2021</b>							
GLA (m <sup>2</sup> )	119 379	271 534	24 864	*	9 825	8 939	434 541
Rent	212 920	143 285	44 523	7 820	16 010	–	424 558
Recoveries	57 355	36 122	10 022	201	1 719	–	105 419
Straight-line rental income accrual	(3 212)	(20 983)	(1 365)	(283)	–	–	(25 843)
Revenue	267 063	158 424	53 180	7 738	17 729	–	504 134
Property expenses	(84 407)	(44 952)	(16 253)	(270)	(9 383)	650	(154 615)
Net property income	182 656	113 472	36 927	7 468	8 346	650	349 519
Other income (including results from associate)	–	–	–	–	–	7 781	7 781
Administration expenses	–	–	–	–	–	(40 622)	(40 622)
Net finance charges	–	–	–	–	–	(104 252)	(104 252)
Change in fair value	73 217	(31 374)	(2 621)	56 583	(4 307)	20 321	111 819
<b>Profit before taxation</b>	<b>255 873</b>	<b>82 098</b>	<b>34 306</b>	<b>64 051</b>	<b>4 039</b>	<b>(116 122)</b>	<b>324 245</b>
Investment property	2 312 000	1 481 700	410 750	158 900	168 000	–	4 531 350
Non-current assets held for sale	–	6 500	–	–	–	–	6 500
Property under development	–	–	–	–	–	109 242	109 242
Property, plant and equipment	31	–	433	–	2 433	24 197	27 094
Trade and other receivables	8 342	4 550	435	–	3 503	18 170	35 000
Other assets	–	–	–	–	–	238 951	238 951
<b>Total assets</b>	<b>2 320 373</b>	<b>1 492 750</b>	<b>411 618</b>	<b>158 900</b>	<b>173 936</b>	<b>390 560</b>	<b>4 948 137</b>
Trade and other payables	36 984	14 465	2 655	3 773	3 215	24 525	85 617
Other liabilities	–	–	–	–	–	1 897 955	1 897 955
<b>Total liabilities</b>	<b>36 984</b>	<b>14 465</b>	<b>2 655</b>	<b>3 773</b>	<b>3 215</b>	<b>1 922 480</b>	<b>1 983 572</b>

\* 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.

### 39. Segmental analysis continued

	GROUP						
	Retail R'000	Indus- trial R'000	Office R'000	Specia- lised R'000	Resi- dential R'000	Other R'000	Total R'000
<b>Year ended 30 June 2020</b>							
GLA (m <sup>2</sup> )	119 379	282 039	19 918	*	9 825	5 532	436 693
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-line rental income accrual	(7 758)	(6 626)	1 304	(204)	441	–	(12 843)
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 property income	170 800	141 302	34 587	6 769	12 051	3 163	368 672
Other income (including results from associate)	–	–	–	–	–	13 221	13 221
Administration expenses	–	–	–	–	–	(39 172)	(39 172)
Net finance charges	–	–	–	–	–	(135 295)	(135 295)
Change in fair value	(24 626)	(51 113)	(10 963)	4 154	(23 734)	(11 372)	(117 654)
<b>Profit before taxation</b>	<b>146 174</b>	<b>90 189</b>	<b>23 624</b>	<b>10 923</b>	<b>(11 683)</b>	<b>(169 455)</b>	<b>89 772</b>
Investment property	2 234 500	1 535 800	373 200	102 600	171 300	–	4 417 400
Non-current assets 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
<b>Total assets</b>	<b>2 244 783</b>	<b>1 589 989</b>	<b>374 014</b>	<b>102 600</b>	<b>174 429</b>	<b>301 633</b>	<b>4 787 448</b>
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
<b>Total liabilities</b>	<b>31 768</b>	<b>7 801</b>	<b>2 992</b>	<b>3 705</b>	<b>5 606</b>	<b>1 862 508</b>	<b>1 914 380</b>

\* 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 1

# Additional disclosures in terms of SA REIT Best Practice Recommendations ("SA REIT BPR")

	30 June 2021 R'000	30 June 2020 R'000
<b>1. SA REIT BPR funds from operations ("FFO")</b>		
Profit per IFRS statement of comprehensive income (SOCl) attributable to equity holders of the company	313 027	82 710
<i>Adjusted for:</i>		
<b>Accounting/specific adjustments</b>		
Fair value adjustment to investment properties	(91 498)	106 282
Straight-line rental income adjustment	25 843	12 843
Fair value adjustment to financial assets	(8 550)	–
Depreciation of owner occupied property	506	501
Deferred taxation movement	308	309
Adjustments to dividends from equity interests held	2 269	334
<b>Hedging items</b>		
Fair value adjustment to derivative instruments	(11 771)	11 372
<b>Other adjustments</b>		
Non-controlling interests in respect of the above adjustments	1 554	694
	<b>231 688</b>	<b>215 045</b>
Number of shares in issue at reporting date*	255 395 858	255 395 858
Distribution per share (cents)	90,72	84,20

\* Excluding the 900 000 treasury shares in issue.

	30 June 2021 R'000	30 June 2020 R'000
<b>2. SA REIT BPR cost-to-income ratio</b>		
Per IFRS income statement		
Property expenses, including municipal expenses and depreciation	154 615	139 416
Administrative expenses and corporate costs	40 116	38 671
Per statement of comprehensive income	40 622	39 172
<i>Adjust for: Depreciation charged on owner occupied property</i>	(506)	(501)
<b>Total expenses</b>	<b>194 731</b>	<b>178 087</b>
Contractual rental income and utility and operating recoveries, excluding straight-line rental income	529 977	520 931
<b>Cost-to-income ratio (%)</b>	<b>36,7</b>	<b>34,2</b>
<b>Administrative cost-to-income ratio (%)</b>	<b>7,7</b>	<b>7,5</b>

	30 June 2021 R'000	30 June 2020 R'000
<b>3. SA REIT BPR vacancy rate</b>		
GLA of property portfolio (m²)	434 541	436 693
Vacant GLA (m²)	9 271	6 331
Vacancy rate (%)	2,1	1,4
<b>4. SA REIT BPR loan to value</b>		
Interest-bearing liabilities	1 828 289	1 766 251
Less: Cash and cash equivalents	(110 300)	(86 258)
Add: Derivative financial instruments	5 905	17 676
<b>Net debt</b>	<b>1 723 894</b>	<b>1 697 669</b>
Investment property	4 531 350	4 417 400
Property under development	109 242	89 462
Non-current assets held for sale	6 500	47 500
Owner occupied property	23 190	23 695
Financial assets – shares in listed REIT	38 475	–
<b>Carrying amount of property-related assets</b>	<b>4 708 757</b>	<b>4 578 057</b>
<b>Loan to value</b>	<b>36,6</b>	<b>37,1</b>
<b>5. SA REIT BPR net asset value ("NAV")</b>		
Reported NAV	2 918 016	2 827 924
Adjusted for:		
Dividend to be declared	(119 727)	(111 961)
Fair value of derivative financial instruments	5 905	17 676
Deferred taxation	63 732	63 424
<b>SA REIT BPR NAV</b>	<b>2 867 926</b>	<b>2 797 063</b>
Number of shares in issue	255 395 858	255 395 858
NAV per share (cents)	1 122,93	1 095,19
	30 June 2021 %	30 June 2020 %
<b>6. SA REIT BPR cost of debt</b>		
<b>Variable interest rate borrowings</b>		
Floating reference rate plus weighted average margin	5,20	6,44
<b>Fixed interest rate borrowings</b>		
Weighted average fixed rate	1,06	2,04
Pre-adjusted weighted average cost of debt	6,26	8,48
Amortised transaction costs imputed into the effective interest rate	0,06	0,14
All-in weighted average cost of debt	6,33	8,62

Stakeholders are integral to Heriot and stakeholder risks and concerns are therefore carefully considered when reviewing and refining strategy.

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Shareholders'  
information

# Shareholder analysis

**Company:** Heriot REIT Limited  
**Register date:** 25 June 2021  
**Issued share capital:** 256 295 858

	Number of shareholdings	%	Number of shares	%
<b>Shareholder spread</b>				
1 – 1 000 shares	28	65,12	3 080	–
1 001 – 10 000 shares	2	4,65	6 830	–
10 001 – 100 000 shares	2	4,65	200 000	0,08
100 001 – 1 000 000 shares	3	6,98	1 570 000	0,61
1 000 001 shares and over	8	18,60	254 515 948	99,31
<b>Total</b>	<b>43</b>	<b>100,00</b>	<b>256 295 858</b>	<b>100,00</b>
<b>Distribution of shareholders</b>				
Close Corporations	1	2,33	1 857	–
Individuals	34	79,06	11 039 463	4,31
Private companies	6	13,95	244 254 658	95,30
Treasury stock	1	2,33	900 000	0,35
Trust	1	2,33	100 000	0,04
<b>Total</b>	<b>43</b>	<b>100,00</b>	<b>256 295 858</b>	<b>100,00</b>
<b>Public/non-public shareholders</b>				
<b>Non-public shareholders</b>	<b>4</b>	<b>9,30</b>	<b>237 867 522</b>	<b>92,81</b>
Directors and associates of the company	3	6,97	236 967 522	92,46
Treasury stock	1	2,33	900 000	0,35
<b>Public shareholders</b>	<b>39</b>	<b>90,70</b>	<b>18 428 336</b>	<b>7,19</b>
<b>Total</b>	<b>43</b>	<b>100,00</b>	<b>256 295 858</b>	<b>100,00</b>
<b>Beneficial shareholders holding 3% or more</b>				
SB Herring			222 790 183	86,93
RL Herring			14 177 339	5,53
<b>Total</b>			<b>236 967 522</b>	<b>92,46</b>

# 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  
("Heriot" or "the company" or "the group")

Notice is hereby given to the shareholders of the company as at Friday, 22 October 2021 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 Microsoft Teams, a remote interactive electronic platform, at 12:00 on Wednesday, 8 December 2021 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, 3 December 2021, 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, 30 November 2021.

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 Electronic Participation Application Form by Monday, 6 December 2021.

## Ordinary resolutions

### Ordinary resolution 1: Adoption of annual financial statements

"Resolved that the annual financial statements of the company, including the reports of the directors, auditor, the audit and risk committee and the social and ethics committee for the year ended 30 June 2021, be and are hereby adopted."

### Ordinary resolution 2: Re-election of Janys Finn as director

"Resolved that Janys Finn who retires in terms of the company's memorandum of incorporation and who, being eligible, offers herself for re-election, be re-elected as a director and chief financial officer of the company."

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

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

### Ordinary resolution 3: Re-election of Steven Herring as director

"Resolved that Steven 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 of the company."

A brief *curriculum vita* of Steven Herring is set out on page 2 of the integrated report of which this notice forms part.

## Notice of annual general meeting continued

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

### Ordinary resolution 4: Re-election of Robin Lockhart-Ross as director

"Resolved that Robin Lockhart-Ross who retires in terms of the company's memorandum of incorporation and who, being eligible, offers himself for re-election, be re-elected as director of the company".

A brief *curriculum vita* in respect of Robin Lockhart-Ross, is set out on page 3 of the integrated report of which this notice forms part.

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

### Ordinary resolution 5: Re-appointment of auditor

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

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

### Ordinary resolution 6: Re-appointment of audit and risk committee members

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

6.1 Selwyn Joel Blieden (chairman of the audit and risk committee);

6.2 Trevor John Cohen; and

6.3 Robin Lockhart-Ross, subject to the approval of ordinary resolution 4 above.

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

Brief *curricula vitae* of Selwyn Joel Blieden, Trevor John Cohen and Robin Lockhart-Ross are set out on pages 2 and 3 of the integrated report of which this notice forms part.

### Ordinary resolution 7: Approval of remuneration policy and remuneration implementation report

#### Ordinary resolution 7.1: Approval of remuneration policy

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

#### Ordinary resolution 7.2: Approval of remuneration implementation report

"Resolved that, through a non-binding advisory vote, the company's remuneration implementation report, as disclosed on page 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 being 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:

- 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 shall not exceed 25 539 586 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 25 539 586 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.”

## Voting

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

## Special resolutions

### Special resolution 1: General authority to repurchase 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.
- 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;



## Notice of annual general meeting continued

- 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 counter party;
  - 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 and the group's ordinary share capital, reserves and working capital will be adequate for ordinary business purposes.
- The board is of the opinion that this authority should be in place so as to enable the company, as and when the opportunity presents itself, to repurchase shares.
- The following additional information is provided in terms of the JSE Listings Requirements for purposes of this general authority:
- Major beneficial shareholders – see "analysis of shareholders" section in Heriot's 2021 audited annual financial statements (page 98 ).
  - Share capital of the company – see note 13 on page 70 in the audited annual financial statements.

### 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.

### 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.

### 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.

## Notice of annual general meeting continued

### 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, 2 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.

### Quorum

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

### 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 110 and email same to the company's transfer secretaries at **proxy@computershare.co.za** and to **siphelele.ngidi@computershare.co.za** as soon as possible, but in any event by no later than Monday, 6 December 2021.

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 Electronic Participation Application Form, 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 to join the meeting by no later than 11:55 on Thursday, 25 November 2021 by clicking 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 that

prevents any such shareholder or their proxy from participating in and/or voting at the annual general meeting.

## Proxies

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 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 the Form of Proxy and lodging this form with the company's transfer secretaries by no later than Monday, 6 December 2021 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 sipehelele.ngidi@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 "own name" 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 "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 "Electronic participation".

By order of the board



**CIS Company Secretaries Proprietary Limited**  
*Company secretary*

Johannesburg  
29 October 2021

# 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, 3 December 2021, 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 **Monday, 6 December 2021** to allow for processing of the proxy forms. Alternatively, the form of proxy may be handed to the chairman of the annual general meeting at any time prior to the commencement of the annual general meeting or prior to voting on any resolution proposed at the annual general meeting.
7. A Heriot shareholder's instructions to the proxy must be indicated by means of a tick or a cross in the appropriate box provided. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of all the Heriot shareholder's votes exercisable thereat relating to the resolutions proposed in this form of proxy.
8. The completion and lodging of this form of proxy will not preclude the relevant Heriot shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such Heriot shareholder wish to do so. In addition to the foregoing, a Heriot shareholder may revoke the proxy appointment by (i) cancelling it in writing or making a later inconsistent appointment of a proxy; and (ii) delivering a copy of the revocation instrument to the proxy, and to the company. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the Heriot shareholder as at the later of the date stated in the revocation instrument, if any; or the date on which the revocation instrument was delivered in the required manner.
10. 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.
11. Any alteration to this form of proxy, other than a deletion of alternatives, must be initialled by the signatory(ies).
12. 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.
13. Where there are joint holders of Heriot shares:
  - 13.1 any one holder may sign this form of proxy; and
  - 13.2 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.
14. 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.
15. The foregoing notes contain a summary of the relevant provisions of section 58 of the Companies Act, as required in terms of that section.

# Form of proxy



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

For use by holders of certificated Heriot ordinary shares or holders of dematerialised Heriot ordinary shares held through a Central Securities Depository Participant ("**CSDP**") or broker and who have selected "own-name" registration, at the annual general meeting of the company to be held at 12:00 on Wednesday, 8 December 2021 (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

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 12:00 on Wednesday, 8 December 2021, and to vote for me/us on my/our behalf in respect of the undermentioned resolutions.

## Form of proxy continued

	For*	Against*	Abstain*
<b>Ordinary resolution no. 1:</b> Adoption of the annual financial statements			
<b>Ordinary resolution no. 2:</b> Re-election of Janys Finn as a director of the company			
<b>Ordinary resolution no. 3:</b> Re-election of Steven Herring as a director of the company			
<b>Ordinary resolution no. 4:</b> Re-election of Robin Lockhart-Ross as director of the company			
<b>Ordinary resolution no. 5:</b> Reappointment of auditor			
<b>Ordinary resolution no. 6:</b> Reappointment of the members of the audit and risk committee:			
6.1 Selwyn Joel Blieden ( <i>Chairman</i> )			
6.2 Trevor John Cohen			
6.3 Robin Lockhart-Ross			
<b>Ordinary resolution no. 7:</b> 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			
<b>Ordinary resolution no. 8:</b> General authority to issue shares for cash			
<b>Special resolution no. 1:</b> General authority to repurchase shares			
<b>Special resolution no. 2:</b> Financial assistance to related or inter-related parties			
<b>Ordinary resolution no. 9:</b> 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 \_\_\_\_\_ 2021

Signature \_\_\_\_\_ Assisted by (where applicable) \_\_\_\_\_

# Electronic Participation Application Form 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 (the "AGM Notice") 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 **siphelele.ngidi@computershare.co.za** as soon as possible, but in any event by no later than Monday, 6 December 2021.

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 Form, but in any event before the annual general meeting on **Tuesday, 23 November 2021** 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 table below.

### 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



## Electronic Participation Application Form at the annual general meeting continued

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 107.*

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 \_\_\_\_\_ 2021

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 Black Economic Empowerment compliance certificate



## Broad-Based Black Economic Empowerment Commission

### Compliance Report by Sphere of Government / Public Entities / Organs of State

(in terms of Section 13G (1) 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, 3 Melrose Boulevard, Johannesburg, 2196
Telephone Number	011 684 1570
Email Address	dsnoyman@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		9.00
Socio-Economic Development	e.g. 5 points		0.00
Total Score	e.g. 109 points	0.00	14.00
Priority Elements Achieved	YES / NO and specify them	Not included in Honeycomb's report	
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 (1) of the Act)

1

# Broad-based economic empowerment compliance certificate

continued

## SECTION C: FINANCIAL REPORT

### 1. BASIC ACCOUNTING DETAILS:

a. Accounting Officer's Name:

Janys Ann Finn

b. Address:

Suite 1, 3 Melrose Boulevard, 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:

a. Copy of Annual Financial Statements including Balance Sheet and Income and Expenditure Report.

Attached


i) Annual Report

Attached

b. Entity Annual Turnover:

R 529 977 000

### c. Sign-off and Date

 _____ Signature	<u>29 October 2021</u> _____ Date
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# Shareholders' diary

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Financial year end

30 June

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Annual general meeting

8 December 2021

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Integrated report released

29 October 2021

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## 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

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  
Corner 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)



[www.heriotreit.co.za](http://www.heriotreit.co.za)

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