



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 JSE)
("Heriot" or "the Company" or "the Group")

COMPANY SECRETARY

CIS Company Secretaries Proprietary Limited
(G Prestwich)

REGISTERED OFFICE

Suite 1, Ground Floor, 3 Melrose Boulevard,
Melrose Arch, Johannesburg, 2196
PO Box 652737, Benmore, 2010

DIRECTORS

SB Herring (*Chairperson*)^{*^}, RL Herring (*CEO*)
JA Finn (*CFO*), SJ Blieden^{**†}, T Cohen^{**†}, R Lockhart-Ross^{**†}, N Ngale^{**†}

^{*}*Non-executive*

[^]*British*

[†]*Independent*

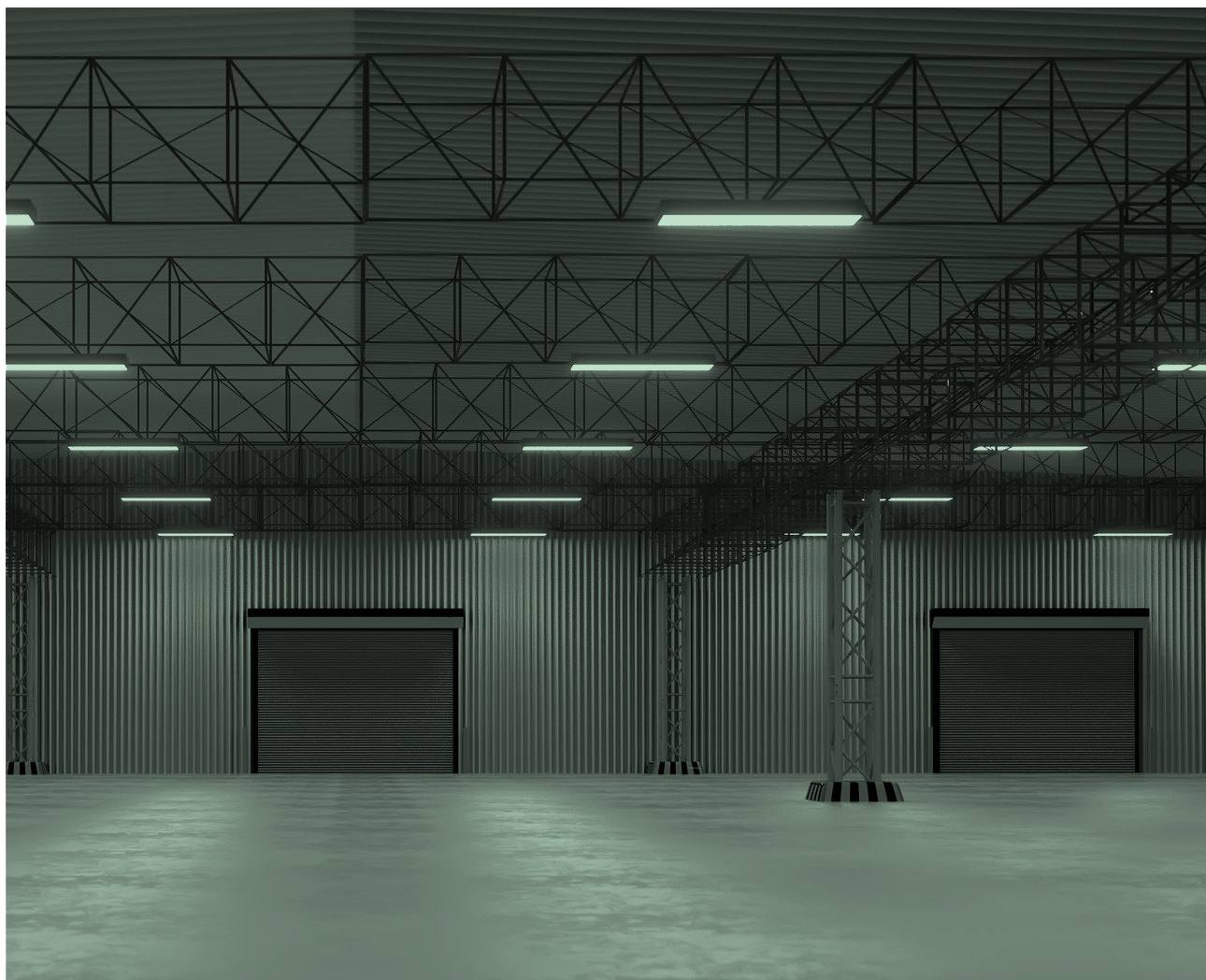
TRANSFER SECRETARIES

Computershare Investor Services Proprietary Limited

DESIGNATED ADVISOR

Java Capital

www.heriotreit.com



2019 Reviewed provisional condensed consolidated financial statements
for the year ended 30 June
and change to the board

HIGHLIGHTS

- **Distributable earnings** growth of **10,4%**
- **Net gearing** of **35,4%**
- **Arrears** of **0,4%** of contractual income and recoveries
- **Expansion** into **residential** sector

COMMENTARY

Introduction

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

Financial results

As Heriot changed its year end from 31 May to 30 June during the previous financial year, Heriot's comparative financial results are for the 13 months ended 30 June 2018.

Distributable earnings of the Group for the year ended 30 June 2019 of R206,5 million, or 80,87 cents per share, are 10,4% ahead of the distributable earnings for the twelve months ended 31 May 2018 of 73,27 cents per share. This growth is in line with the forecast growth of 9,0% to 11,0% as indicated in the summarised audited condensed financial statements for the year ended 31 May 2018 and for the 13 months ended 30 June 2018. The above market distributable earnings growth in the current tough economic climate is mainly attributable to the restructuring of secured borrowings on more favourable terms and efficient property management. Heriot's cash flows and results are further supported by the fact that its properties are anchored by a high percentage of national tenants with long-term leases and high trading densities.

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

Property portfolio

Heriot's portfolio comprises 44 properties across all major sectors within South Africa. At the reporting date, the properties were externally valued at R4,59 billion, including the recently completed residential property, The Heriot, located in the Cape Town CBD. The redevelopment of The Heriot was substantially completed on 31 May 2019 at an all in cost of R191,5 million and comprises of 215 residential units with 870 m² ground floor retail let to Dischem on a 10 year lease.

In January 2019, Heriot acquired a 55% interest in an industrial property, Hagley, in Cape Town for R27,5 million. The property, previously owned by Aveng, was ultimately acquired for redevelopment into a 35,000m² distribution centre but, in the interim, will be leased to tenants for yard space. All yard space leases are subject to redevelopment clauses. Capex of R2,1 million has been spent on the property since acquisition.

Over and above Heriot's investment property portfolio, Heriot owns the Group's head office, comprising 717m² A Grade office space in Melrose Arch. This property has been accounted for as property, plant and equipment in terms of the accounting standard relating to owner occupied property.

Vacancies

As at 30 June 2019, vacancies amounted to 6,602m² or 1,3% of the portfolio of which 4,743m² relates to 109 residential units at The Heriot.

Subsequent to the reporting date, 107 residential units have been let, reducing the overall vacancies to 0,1%.

Bad debts

The receivables have been considered individually for expected credit losses. The expected credit loss on these receivables is based on the use of judgement, future expectations and information affecting the debtor, together with historical experience. The application of the new Expected Credit Loss impairment model under IFRS 9 had no impact on the impairment losses recognised in the group's results at adoption or during the year due to collateral on receivables and strong risk management processes in place.

Funding

Heriot's secured borrowings of R1,624 billion as at 30 June 2019 equates to a gearing ratio of 35,4%. The average cost of borrowing was

8,97% for the period under review and 40% of borrowings have been fixed. The average remaining term of the debt is 1,7 years. A Nedbank facility of R810,0 million has been disclosed as current as it falls due in May 2020. Negotiations for the refinance of this facility have commenced and management do not anticipate any issues in the renegotiation thereof.

While the Group has a facility of R80,0 million in place to fund the redevelopment of The Heriot, costs of the development were funded from available cash resources. The facility will be drawn down by no later than 31 October 2019.

Investment in associate

The investment reflects Heriot's 49,9% interest in Fixtrade, a company that owns 50 townhouses in Newcastle KwaZulu-Natal. The decrease in the investment of R3,0 million has arisen from a devaluation in the valuation of the property.

Financial assets

Financial assets comprise of:

Non-current

Loans to participants of the employee share purchase scheme. The share scheme loan bears interest at Heriot's average cost of borrowings and the Company is entitled to claim repayment of the loans at any time after the expiration of 10 years from the advance date of July 2017.

Current

Loan to a related party, being a company owned by SB Herring, which loan bears interest at the average cost of borrowings and is repayable on demand. Subsequent to the reporting date, a further R3,0 million of this loan has been repaid.

Share capital

There were no changes to the issued share capital during the reporting period. As at 30 June 2019, the Company had 255 395 858 shares in issue, excluding the 900 000 treasury shares owned by the Group.

Events after the reporting period

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

Segmental analysis

The Group's portfolio is organised into five operating segments, namely retail, industrial, office, residential and specialised. The contribution of each segment to the overall performance of the Group is as follows:

For the year ended 30 June 2019	GLA m ²	Investment property R'000	Revenue R'000	Straight line rental income R'000	Property expenses R'000	Net property income R'000	Fair value adjustments R'000
Retail	137 345	2 343 500	252 346	2 809	(69 185)	185 970	33 657
Industrial	328 149	1 638 675	184 496	(12 086)	(36 148)	136 262	(5 869)
Office	18 495	321 050	34 980	2 812	(11 817)	25 975	(3 918)
Specialised*	–	98 650	7 001	(129)	(401)	6 471	5 380
Residential	9 825	185 000	930	–	(1 466)	(536)	(5 849)
	493 814	4 586 875	479 753	(6 594)	(119 017)	354 142	23 401

For the 13 months ended 30 June 2018	GLA m ²	Investment property R'000	Revenue R'000	Straight line rental income R'000	Property expenses R'000	Net property income R'000	Fair value adjustments R'000
Retail	137 345	2 304 450	246 679	(517)	(64 249)	181 913	186 908
Industrial	320 063	1 626 475	176 042	(21 090)	(26 568)	128 384	125 104
Office	18 495	320 775	34 088	2 585	(8 214)	28 459	10 575
Specialised *	–	93 400	7 104	(63)	(345)	6 696	4 003
Property under development	9 825	106 863	–	–	–	–	–
	485 728	4 451 963	463 913	(19 085)	(99 376)	345 452	326 590

* The specialised property comprises of 8,382ha² 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.

Payment of dividend

The board has approved and notice is hereby given of the final gross dividend of 41,37156 cents per share for the six months ended 30 June 2019. The dividend is payable to Heriot's shareholders in accordance with the timetable set out below:

	2019
Last date to trade cum dividend	Tuesday, 8 October
Shares trade ex dividend	Wednesday, 9 October
Record date	Friday, 11 October
Payment date	Monday, 14 October

Share certificates may not be dematerialised or rematerialised between Wednesday, 9 October 2019 and Friday, 11 October 2019, both days inclusive. The dividend will be transferred to dematerialised shareholders' CSDP/broker accounts on Monday, 14 October 2019. Certificated shareholders' dividend payments will be posted or paid to certificated shareholders' bank accounts on or about, Monday, 14 October 2019.

In accordance with Heriot's status as a REIT, shareholders are advised that the dividend meets the requirements of a "qualifying distribution" for the purposes of section 25BB of the Income Tax Act, No. 58 of 1962 ("Income Tax Act"). The dividend on the shares will be deemed to be a dividend, for South African tax purposes, in terms of section 25BB of the Income Tax Act.

The dividend received by or accrued to South African tax residents must be included in the gross income of such shareholders and will not be exempt from income tax (in terms of the exclusion to the general dividend exemption, contained in paragraph (aa) of section 10(1)(k)(i) of the Income Tax Act) because it is a dividend distributed by a REIT. This dividend is, however, exempt from dividend withholding tax in the hands of South African tax resident shareholders, provided that such shareholders provide the following forms to their Central Securities Depository Participant ("CSDP") or broker, as the case may be, in respect of uncertificated shares, or the Company, in respect of certificated shares:

a) a declaration that the dividend is exempt from dividends tax; and

b) a written undertaking to inform the CSDP, broker or the Company, as the case may be, should the circumstances affecting the exemption change or the beneficial owner cease to be the beneficial owner,

both in the form prescribed by the Commissioner for the South African Revenue Service. Shareholders are advised to contact their CSDP, broker or the Company, as the case may be, to arrange for the abovementioned documents to be submitted prior to payment of the dividend, if such documents have not already been submitted.

Dividends received by non-resident shareholders will not be taxable as income and instead will be treated as an ordinary dividend which is exempt from income tax in terms of the general dividend exemption in section 10(1)(k)(i) of the Income Tax Act. Any distribution received by a non-resident from a REIT will be subject to dividend withholding tax at 20%, unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation ("DTA") between South Africa and the country of residence of the shareholder. Assuming dividend withholding tax will be withheld at a rate of 20%, the net dividend amount due to non-resident shareholders is 33,09725 cents per share. A reduced dividend withholding rate in terms of the applicable DTA may only be relied on if the non-resident shareholder has provided the following forms to their CSDP or broker, as the case may be, in respect of uncertificated shares, or the Company, in respect of certificated shares:

a) a declaration that the dividend is subject to a reduced rate as a result of the application of a DTA; and

- b) a written undertaking to inform their CSDP, broker or the Company, as the case may be, should the circumstances affecting the reduced rate change or the beneficial owner cease to be the beneficial owner,

both in the form prescribed by the Commissioner for the South African Revenue Service. Non-resident shareholders are advised to contact their CSDP, broker or the Company, as the case may be, to arrange for the abovementioned documents to be submitted prior to payment of the dividend if such documents have not already been submitted, if applicable.

Shares in issue at the date of the dividend:
255 395 858 (excluding 900,000 treasury shares)

Heriot's income tax reference number:
9541295185

Where the transfer secretaries do not have the banking details of any certificated shareholders, the cash dividend will be held in trust by the transfer secretaries pending receipt of the relevant certificated shareholder's banking details where after the cash dividend will be paid via electronic transfer into the personal bank accounts of certificated shareholders.

Prospects

Despite the difficult economic conditions, the Board remains confident that the resilient nature of Heriot's portfolio together with the high quality of its tenant base will deliver growth of 6,0% to 8,0% in the dividend per share for the year ending 30 June 2020.

Heriot remains committed to its strategy of acquiring high quality properties, and redeveloping existing properties, to add value both in terms of capital growth and rental appreciation. In this regard, Heriot is continuously evaluating the feasibility of redeveloping the retail property situated in Mowbray into student accommodation. However, the effects of any possible redevelopment of this property have not been considered this forecast.

This forecast is based on the assumption that a stable macro-economic environment will prevail and that, other than the acquisition of the property in Wynberg, Cape Town in August 2019, there will be no acquisitions or disposals of properties during the year. The forecast further assumes that there will be no changes in the current trading conditions of the existing portfolio, that tenants will be able to absorb rising costs of occupation and that there will be no major corporate failures. This forecast has not been audited or reviewed by the Company's auditors.

Basis of preparation

The reviewed condensed consolidated financial statements for the year ended 30 June 2019 have been prepared in accordance with the JSE Listings Requirements and the requirements of the Companies Act 71 of 2008 of South Africa. The JSE Listings Requirements require these condensed financial results to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, and to also, as a minimum, contain the information required by IAS 34, Interim Financial Reporting. The accounting policies applied in the preparation of these financial statements are in terms of IFRS and are consistent with those applied in the previous consolidated annual financial statements, except for the adoption of IFRS 9 and IFRS 15.

These reviewed results for the year ended 30 June 2019 were prepared under the supervision of the Chief Financial Officer, JA Finn CA(SA).

The directors are not aware of any matters or circumstances arising subsequent to the year ended 30 June 2019 that require any additional disclosure or adjustment to the financial statements. The directors further take full responsibility for the preparation of these condensed consolidated financial statements.

These provisional condensed consolidated financial statements for the year ended 30 June 2019 have been reviewed by BDO South Africa Inc., who expressed an unmodified review conclusion.

A copy of the auditor's review report is available for inspection at the Company's registered office together with the financial statements identified in the auditor's report. The auditor's report does not necessarily report on all of the information contained in this announcement. Shareholders are therefore advised that, in order to obtain a full understanding of the nature of the auditor's engagement, they should obtain a copy of the auditor's report together with the accompanying financial information from the issuer's registered office.

New Standards and interpretations adopted in the current financial period

IFRS 15 – Revenue from contracts with customers

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

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

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

IFRS 9 Financial Instruments

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

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

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

Prior period errors

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

The correction of the errors results in adjustments as follows:

	Basic and diluted earnings per share (cents)	Basic and diluted headline earnings per share (cents)
Reported	195,17	70,44
Restated	197,51	71,29
Difference	2,34	0,85

Non-IFRS measure – distributable earnings

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

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

* Excluding the 900,000 treasury shares in issue.

Change to the board

Mr David Friend resigned from the board on 18 February 2019 and the board thanks Mr Friend for his valuable contribution to the company. Mr Steven Herring, a non-executive director of Heriot, assumed the role of chairperson of the board on that date.

Subsequent to year end, the board has appointed Mr Robin Lockhart-Ross as an independent non-executive director effective from 18 September 2019. The appointment will be confirmed by the company's shareholders at the upcoming annual general meeting of shareholders.

A short biography of Robin is set out below:

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

From 1999 to 2003, Robin was Head of Risk at BoE Corporate: Property and Asset Finance, during which period he also acted as interim Managing Executive of NBS Homeloans and as Chairman of Bond Choice Proprietary Limited. In 2003, he was appointed as Head of Risk at Nedbank Property Finance, a position that he held for 12 years. Subsequently, for the period November 2014 to June 2018, Robin held the position of Managing Executive of Nedbank CIB: Commercial Property Finance. During that period, Robin was the Chairman of the Divisional Manco, Enterprise Wide Risk Committee and the Investment Committee. He was also a member of the CIB Executive Committee, Enterprise Wide Risk Committee and Divisional Credit Committee.

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

By order of the Board

18 September 2019

Publication date: 19 September 2019

Condensed consolidated statement of financial position

	Reviewed 30 June 2019 R'000	Audited 30 June 2018 R'000
Assets		
Non-current assets		
Investment property	4 586 875	4 451 963
Property, plant and equipment	25 312	25 373
Investment in associate	7 427	10 430
Financial assets	35 130	34 788
	4 654 744	4 522 554
Current assets		
Trade and other receivables	31 577	24 165
Financial assets	43 318	77 760
Taxation	1 093	2 918
Cash and cash equivalents	27 639	113 081
	103 627	217 924
Total assets	4 758 371	4 740 478
Equity and liabilities		
Equity		
Stated capital	2 548 624	2 548 624
Retained earnings	406 325	410 841
	2 954 949	2 959 465
Non-controlling interests	44 875	46 400
	2 999 824	3 005 865
Non-current liabilities		
Interest-bearing liabilities	914 734	1 211 036
Derivative financial instrument	6 304	–
Deferred taxation	63 116	59 808
	984 154	1 270 844
Current liabilities		
Interest-bearing liabilities	710 000	403 886
Derivative financial instrument	–	812
Trade and other payables	64 393	59 071
	774 393	463 769
Total equity and financial liabilities	4 758 371	4 740 478
Net asset value per shares (cents)	1 157,01	1 158,78
Net tangible asset per share (excluding deferred taxation) (cents)	1 181,72	1 182,19

Condensed consolidated statement of profit and loss and other comprehensive income

	Reviewed year ended 30 June 2019 R'000	Audited 13 months ended 30 June 2018 R'000
Rental income	473 159	444 828
Contractual rental income and recoveries	479 753	463 913
Straight line rental income	(6 594)	(19 085)
Property expenses	(119 017)	(99 376)
Net property income	354 142	345 452
Income from associate	(3 003)	781
Other income	7 670	11 074
Administrative expenses and corporate costs	(34 033)	(34 481)
Profit from operations	324 776	322 826
Finance income	14 022	16 776
Finance charges	(137 327)	(152 147)
Profit before fair value adjustments	201 471	187 455
Fair value adjustments	17 910	328 583
Investment properties	23 401	326 590
Derivative financial instrument	(5 491)	1 993
Profit before taxation	219 381	516 038
Taxation	(5 458)	(6 098)
Net profit after taxation	213 923	509 940
Attributable to:		
Equity holders of the company	209 199	498 445
Non-controlling interests	4 724	11 495
	213 923	509 940
Reconciliation of earnings and headline earnings		
Profit attributable to equity holders of the company	209 199	498 445
Change in fair value of investment properties attributable to equity holders of the company	(21 547)	(318 546)
Change in fair value of investment properties	(23 401)	(326 590)
Attributable to non-controlling shareholders	1 854	8 044
Headline earnings attributable to equity holders	187 652	179 899
Number of shares in issue at reporting date*	255 395 858	255 395 858
Weighted average number of shares in issue	255 395 858	252 363 996
Basic and diluted earnings per share (cents)^	81,91	197,51
Basic and diluted headline earnings per share (cents)^	73,47	71,29
Distribution per share (cents)	80,87	79,27

* Excluding 900 000 treasury shares.

^ Refer to the prior period error note

Condensed consolidated statement of changes in equity

	Stated capital R'000	Retained earnings R'000	Non-controlling interests R'000	Total equity R'000
Issue of shares	2 556 371		87 112	2 643 483
Share issue expenses	(5 333)	–	–	(5 333)
Acquisition of minority interests	6 586	2 330	(52 207)	(43 291)
Treasury shares acquired	(9 000)	–	–	(9 000)
Total comprehensive income for the 13 months ended 30 June 2018	–	498 445	11 495	509 940
Dividend distributions to owners of company recognised directly in equity	–	(89 934)	–	(89 934)
Balance at 30 June 2018	2 548 624	410 841	46 400	3 005 865
Total comprehensive income for the year ended 30 June 2019	–	209 199	4 724	213 923
Dividend distributions to owners of company recognised directly in equity	–	(213 715)	(6 249)	(219 964)
Balance at 30 June 2019	2 548 624	406 325	44 875	2 999 824

Condensed consolidated statement of cash flows

	Reviewed year ended 30 June 2019 R'000	Audited 13 months ended 30 June 2018 R'000
Cash generated from operations	327 668	394 998
Net finance charges	(123 305)	(135 371)
Taxation paid	(325)	(1 596)
Cash flows from operating activities	204 038	258 031
Acquisition and development of investment property	(113 411)	(343 727)
Proceeds from disposal of investment property	–	22 890
Acquisition of property, plant and equipment	(797)	(97)
Cash on acquisition of businesses	–	13 692
Dividends received from associates	–	1 500
Loan to related party repaid	34 442	26 717
Share scheme debt repaid	2 722	1 470
Cash from investing activities	(77 044)	(277 555)
Proceeds from the issue of share capital	–	29
Share issue expenses	–	(5 333)
Acquisition of non-controlling interests	–	(43 291)
Dividend distributions to owners of the company	(217 120)	(89 934)
Interest bearing liabilities repaid	–	(202 074)
Interest bearing borrowings raised	4 684	473 208
Net cash generated from financing activities	(212 436)	132 605
Net movement in cash and cash equivalents	(85 442)	113 081
Cash and cash equivalents at the beginning of the year	113 081	–
Cash and cash equivalents at the end of the year	27 639	113 081