



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^{*,†}, NA Ngale^{*,†}

^{*}*Non-executive*

[^]*British*

[†]*Independent*

TRANSFER SECRETARIES

Computershare Investor Services Proprietary Limited

DESIGNATED ADVISOR

Java Capital

www.heriotreit.com



2019 Unaudited summarised consolidated
financial statements
for the six months ended 31 December

HIGHLIGHTS

- Dividend of **40,75 cents per share**
- **18,9% growth** in net asset value since listing in July 2017
- **Gearing** of **35,6%**
- **Portfolio vacancy** of **0,6%**
- **85%** of **GLA** occupied by national tenants
- **Sustainable** cash flows

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 R4,75 billion, situated in areas with high growth potential. The Group's primary objective is to develop or acquire yield-enhancing assets within South Africa to create a stable and diverse portfolio of assets for the purposes of generating secure and escalating net rental income.

Financial results

Distributable earnings of the Group for the six months ended 31 December 2019 of R104,1 million, or 40,75 cents per share, are 3,2% ahead of the distributable earnings for the comparable period in 2018 of 39,50 cents per share, ranking it as one of the best performing REITs in South Africa.

Heriot's cash flows and results are supported by the fact that its properties are anchored by a high percentage of national tenants with long-term leases and high trading densities, together with efficient property, debt and cash management.

Investment property

Heriot's portfolio comprises 43 properties across all major sectors within South Africa. At the reporting date, the properties were externally valued at R4,75 billion, on the basis of an average capitalisation rate of 8,9%. This equates to an

increase of 1,83% in the valuation of the property portfolio on a like-for-like basis. The increase in fair value of 2,33% in the retail portfolio is testimony to the strong performance of the Group's retail malls, located in townships and rural areas, while the more moderate growth of 1,39% in the industrial portfolio is reflective of recent rental reversions experienced in this sector.

Over and above Heriot's investment property portfolio, Heriot owns the Group's head office, comprising 717 m² 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 and bad debts

As at 31 December 2019, vacancies amounted to 0,6% of the portfolio.

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 expected credit loss has remained unchanged from 30 June 2019.

Funding

Heriot's secured borrowings of R1,689 billion at 31 December 2019 equate to a gearing ratio of 35,6%. The average cost of borrowing was 8,89% for the period under review (2018: 8,95%) and

at the reporting date, 38,3% of borrowings have been fixed (2018: 45,1%). The average remaining term of the debt is 1,3 years.

The Group is close to finalising the roll-over of the R710,0 million Nedbank facility, disclosed as current at 30 June 2019, on favourable terms. Further, debt facilities of R347,8 million are expiring within the next 12 months and negotiations for the refinance of these facilities are at an advanced stage. Management do not anticipate any issues in the refinance of these facilities.

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.

Share Capital

There were no changes to the issued share capital during the reporting period. As at 31 December 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

Subsequent to the reporting date, the Group acquired a property in the Cape Town CBD for R40,0 million together with a 50% undivided share in a property in Illovo Johannesburg, for R30,0 million. The properties have been acquired for purposes of redevelopment into residential accommodation in the short to medium term.

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 six months ended 31 December 2019	GLA m ²	Investment property R'000	Revenue R'000	Straight line rental income R'000	Property expenses R'000	Net income R'000	Change in fair value R'000
Retail	137 345	2 398 100	134 016	(5 955)	(40 274)	87 787	56 246
Industrial	328 149	1 661 400	95 273	5 349	(20 584)	80 038	15 517
Office	25 895	397 850	23 147	16	(6 278)	16 885	14 973
Specialised*		100 300	3 575	(656)	(213)	2 706	2 305
Residential	9 825	190 000	9 732	–	(4 322)	5 410	(4 346)
Net property income	501 214	4 747 650	265 743	(1 246)	(71 671)	192 826	84 696

For the six months ended 31 December 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	Change in fair value R'000
Retail	137 345	2 354 450	124 392	(1 907)	(34 963)	87 522	49 672
Industrial	326 113	1 655 641	94 419	(8 703)	(18 685)	67 031	(16 677)
Office	12 445	261 650	13 758	534	(3 094)	11 198	(7 136)
Specialised *	–	94 409	3 409	(65)	(238)	3 106	1 074
Property under development	9 825	143 394	–	–	–	–	–
Net property income	485 728	4 509 544	235 978	(10 142)	(56 979)	168 857	26 933

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	Change in fair value 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
Property under development	9 825	185 000	930	–	(1 466)	(536)	(5 849)
Net property income	493 814	4 586 875	479 753	(6 594)	(119 017)	354 142	23 401

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

Payment of dividend

The board has approved and notice is hereby given of the final gross dividend of 40,75000 cents per share for the six months ended 31 December 2019. The dividend is payable to Heriot's shareholders in accordance with the timetable set out below:

	2020
Last date to trade cum dividend	Tuesday, 10 March
Shares trade ex dividend	Wednesday, 11 March
Record date	Friday, 13 March
Payment date	Monday, 16 March

Share certificates may not be dematerialised or rematerialised between Wednesday, 11 March 2020 and Friday, 13 March 2020, both days inclusive. The dividend will be transferred to dematerialised shareholders' CSDP/broker accounts on Monday, 16 March 2020. Certificated shareholders' dividend payments will be posted or paid to certificated shareholders' bank accounts on or about, Monday, 16 March 2020.

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 declaration that the dividend is exempt from dividends tax; and
- 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 32,60000 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 declaration that the dividend is subject to a reduced rate as a result of the application of a DTA; and
- 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 is confident that Heriot's dividend growth for the year ending 30 June 2020 will be at the upper end of the 6,0% to 8,0% range previously indicated to shareholders.

Management are continually looking at ways to grow Heriot's asset base, improve its liquidity and move from the Alternative Exchange of the JSE onto the main board. Heriot remains committed to delivering continual growth through its strategy of acquiring high quality properties, and redeveloping existing properties, to add value to shareholders both in terms of capital growth and rental appreciation. In this regard, the Board has approved the redevelopment of the retail property situated in Mowbray into retail, anchored by a 10 year lease with Shoprite, and student accommodation. The redevelopment will commence on 1 March 2020 and the effects thereof have been taken into account in this forecast.

This forecast is based on the assumption that a stable macro-economic environment will prevail and that 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 summarised unaudited consolidated financial statements for the six months ended 31 December 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 summarised 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.

These results 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 six months ended 31 December 2019 that require any additional disclosure or adjustment to the financial statements. The directors further take full responsibility for the preparation of these summarised unaudited consolidated financial statements.

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 six months ended 31 December 2019 R'000	For the six months ended 31 December 2018 R'000	For the year ended 30 June 2019 R'000
Profit or loss per IFRS Statement of Comprehensive Income (SOC) attributable to equity holders of the Company	180 959	114 157	209 199
Adjusted for:			
Accounting/specific adjustments:			
Fair value adjustments to:	(84 877)	(25 330)	(17 910)
Investment property	(84 696)	(26 933)	(23 401)
Debt and equity instruments held at fair value through profit or loss	(181)	1 603	5 491
Depreciation of owner occupied depreciation	250	248	495
Deferred tax movement recognised in profit or loss	–	2 248	3 308
Straight-lining operating lease adjustment	1 246	10 142	6 594
Other adjustments:			
Adjustments made for equity-accounted entities	191	69	3 003
Non-controlling interests in respect of the above adjustments	6 310	(652)	1 854
	104 079	100 882	206 543
Number of shares in issue at reporting date *	255 395 858	255 395 858	255 395 858
Distribution per share	40,75	39,50	80,87

* Excluding the 900,000 treasury shares in issue.

By order of the Board

20 February 2020

Summarised consolidated statement of financial position

	Unaudited 31 December 2019 R'000	Unaudited 31 December 2018 R'000	Audited 30 June 2019 R'000
Assets			
Non-current assets			
Investment property	4 747 650	4 509 538	4 586 875
Property, plant and equipment	26 046	24 956	25 312
Investment in associate	7 236	10 360	7 427
Financial assets	35 367	34 864	35 130
	4 816 299	4 579 718	4 654 744
Current assets			
Trade and other receivables	32 810	20 713	31 577
Financial assets	42 364	75 156	43 318
Taxation	1 117	2 903	1 093
Cash and cash equivalents	21 313	38 322	27 639
	97 604	137 094	103 627
Total assets	4 913 903	4 716 812	4 758 371
Equity and liabilities			
Equity			
Stated capital	2 548 624	2 548 624	2 548 624
Retained earnings	481 623	412 164	406 325
	3 030 247	2 960 788	2 954 949
Non-controlling interests	53 438	44 613	44 875
	3 083 685	3 005 401	2 999 824
Non-current liabilities			
Interest-bearing liabilities	631 520	1 587 992	914 734
Derivative financial instrument	6 123	2 415	6 304
Deferred taxation	63 116	62 057	63 116
	700 759	1 652 464	984 154
Current liabilities			
Interest-bearing liabilities	1 057 752	–	710 000
Trade and other payables	71 707	58 947	64 393
	1 129 459	58 947	774 393
Total equity and financial liabilities	4 913 903	4 716 812	4 758 371
Net asset value per shares (cents)	1 186,49	1 159,29	1 157,01
Net tangible asset per share (excluding deferred taxation) (cents)	1 211,20	1 183,59	1 181,72

Summarised statement of profit and loss and other comprehensive income

	Unaudited six months ended 31 December 2019 R'000	Unaudited six months ended 31 December 2018 R'000	Audited year ended 30 June 2019 R'000
Rental income	264 497	225 836	473 159
Contractual rental income and recoveries	265 743	235 978	479 753
Straight line rental income	(1 246)	(10 142)	(6 594)
Property expenses	(71 671)	(56 979)	(119 017)
Net property income	192 826	168 857	354 142
Income from associate	(191)	(69)	(3 003)
Other income	5 238	3 821	7 670
Administrative expenses and corporate costs	(21 853)	(19 290)	(34 033)
Profit from operations	176 020	153 319	324 776
Finance income	5 438	7 453	14 022
Finance charges	(76 123)	(68 132)	(137 327)
Profit before fair value adjustments	105 335	92 640	201 471
Fair value adjustments	84 877	25 330	17 910
Investment properties	84 696	26 933	23 401
Derivative financial instrument	181	(1 603)	(5 491)
Profit before taxation	190 212	117 970	219 381
Taxation	(690)	(2 756)	(5 458)
Net profit after taxation	189 522	115 214	213 923
Attributable to:			
Equity holders of the company	180 959	114 157	209 199
Non-controlling interests	8 563	1 057	4 724
	189 522	115 214	213 923
Reconciliation of earnings and headline earnings			
Profit attributable to equity holders of the company	180 959	114 157	209 199
Change in fair value of investment properties attributable to equity holders of the company	(78 386)	(27 585)	(21 547)
Change in fair value of investment properties attributable to non-controlling shareholders	(84 696)	(26 933)	(23 401)
	6 310	(652)	1 854
Headline earnings attributable to equity holders	102 573	86 572	187 652
Number of shares in issue at reporting date*	255 395 858	255 395 858	255 395 858
Weighted average number of shares in issue	255 395 858	255 395 858	255 395 858
Basic and diluted earnings per share (cents)	70,85	44,70	81,91
Basic and diluted headline earnings per share (cents)	40,16	33,90	73,47
Distribution per share (cents)	40,75	39,50	80,87

* Excluding 900 000 treasury shares.

Summarised consolidated statement of changes in equity

	Stated capital R'000	Retained earnings R'000	Non-controlling interests R'000	Total equity R'000
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
Total comprehensive income for the six months ended 31 December 2019		180 959	8 563	189 522
Dividend distributions to owners of company recognised directly in equity		(105 661)		(105 661)
Balance at 31 December 2019	2 548 624	481 623	53 438	3 083 685

Summarised consolidated statement of cash flows

	Unaudited six months ended 31 December 2019 R'000	Unaudited six months ended 31 December 2018 R'000	Audited year ended 30 June 2019 R'000
Cash generated from operations	182 739	162 975	327 668
Net finance charges	(70 685)	(60 679)	(123 305)
Taxation paid	(714)	(493)	(325)
Cash flows from operating activities	111 340	101 803	204 038
Acquisition and development of investment property	(77 560)	(40 835)	(113 411)
Acquisition of property, plant and equipment	(1 263)	(25)	(797)
Decrease in loan to related party	954	2 604	34 442
Decrease in loan to participants of Share Scheme	1 324	1 458	2 722
Cash from investing activities	(76 545)	(36 798)	(77 044)
Dividend distributions to owners of the company	(105 661)	(112 834)	(217 120)
Interest bearing liabilities repaid	–	(26 930)	–
Interest bearing borrowings raised	64 540	–	4 684
Net cash generated from financing activities	(41 121)	(139 764)	(212 436)
Net movement in cash and cash equivalents	(6 326)	(74 759)	(85 442)
Cash and cash equivalents at the beginning of the period	27 639	113 081	113 081
Cash and cash equivalents at the end of the period	21 313	38 322	27 639