

# Integrated Report **2023**

for the year ended 30 June



**Heriot**  
REIT *Committed to excellence*

# CONTENTS






<b>YEAR IN REVIEW</b>	<b>1</b>	<b>FINANCIAL STATEMENTS</b>	<b>59</b>
<b>ABOUT THIS REPORT</b>	<b>2</b>	Directors’ responsibility and approval	60
		Chief Executive Officer’s and Chief Financial Officer’s responsibility statement	61
<b>GROUP OVERVIEW</b>	<b>5</b>	Group Company Secretary’s certificate	61
Heriot at a glance	6	Report of the Audit and Risk Committee	62
Group structure	8	Directors’ report	63
Portfolio review	10	Independent auditor’s report	66
Geographical profile	10	Statements of financial position	70
Sectoral profile	11	Statements of profit or loss and other comprehensive income	71
Tenant analysis profile	16	Statements of cash flows	72
Portfolio overview	18	Statements of changes in equity	73
<b>VALUE CREATION</b>	<b>19</b>	Notes to the financial statements	74
Chairman’s and Chief Executive Officer’s report	20	Annexure 1: Additional disclosures in terms of SA REIT Best Practice Recommendations	132
Material themes impacting value creation	24		
How our strategy supports value creation	26	<b>SHAREHOLDER INFORMATION</b>	<b>135</b>
Our business model	28	Shareholders’ analysis	136
Stakeholder engagement	30	Notice of annual general meeting	137
Risk management	32	Form of proxy	141
		Notes to the form of proxy	143
<b>SUSTAINABILITY REVIEW</b>	<b>35</b>	Application form for electronic participation at the annual general meeting	144
Environmental stewardship	37		
Our employees	39	Glossary	146
Our local communities	42	Corporate information	ibc
		Shareholders’ diary	ibc
<b>CORPORATE GOVERNANCE</b>	<b>43</b>		
Governance framework	44		
Directorate	45		
Report of the Remuneration and Nomination Committee	51		
Report of the Investment Committee	53		
Report of the Social And Ethics Committee	54		
King IV™	55		

The Group’s continued growth is testimony to its strong, diversified property portfolio and investment in strategic assets.

All signatures have been removed to protect the security and privacy of the signatories.

# YEAR IN REVIEW






## PERFORMANCE HIGHLIGHTS

	<b>Financial capital</b>	<ul style="list-style-type: none"><li>Investment properties valued at R9,258 billion (2022: R5,084 billion)</li><li>Net property operating income (“NOI”) growth of 13,8%</li><li>Gearing ratio of 41,1% (2022: 38,5%)</li><li>Average cost of debt: 8,68%</li><li>Distributable earnings growth of 4,2% (2022: 6,29%)</li><li>Distributable income payout ratio: 100% (2022: 100%)</li><li>22,0% growth in net asset value per share to R14,72 (2022: R12,06)</li><li>Dividend per share: 106,33 cents (2022: 102,05 cents)</li></ul>
	<b>Manufactured capital</b>	<ul style="list-style-type: none"><li>48 investment properties (2022: 39)</li><li>636,435m² GLA* (2022: 425 602m²)</li><li>Portfolio vacancy of 2,4% (2022: 3,0%) reducing to 1,9% post year end</li></ul>
	<b>Human capital</b>	<ul style="list-style-type: none"><li>R402 500 spent on skills development and training</li></ul>
	<b>Natural capital</b>	<ul style="list-style-type: none"><li>Total energy savings of 4 793MW</li><li>Solar photovoltaic installations at five properties</li></ul>
	<b>Social and relationship capital</b>	<ul style="list-style-type: none"><li>Corporate social investment (“CSI”) projects:<ul style="list-style-type: none"><li>– Keep them in class</li><li>– Borehole community initiative</li></ul></li></ul>

\* GLA: Gross lettable area.

## KEY FOCUS AREAS IN 2023

We focused on strengthening our property fundamentals to position ourselves for sustainable value creation. This included:

Safari investment	 page 21
Investment property	 pages 10 to 18, and 22
Integrating sustainability	 pages 22, and 36 to 41
Maintaining an ethical culture	 page 39
Ethical corporate governance	 page 44



# ABOUT THIS REPORT

This integrated report combines information about Heriot’s financial and operational achievements, along with insights into its governance and business approaches. Additionally, it encompasses various financial, non-financial and performance indicators. These components collectively empower stakeholders to evaluate the generated value for the year ended 30 June 2023 and to assess the Group’s ability to create and sustain value in the future.

### REPORT OBJECTIVE AND SCOPE

While this report is primarily intended for shareholders, we remain committed to offering information that holds significance for a broader range of stakeholders. This report’s content is influenced by the interplay of diverse internal and external factors, shaping their influence on our capacity to forge lasting value.

We have considered and incorporated events occurring after the reporting period and up until the approval date of the report. Unless explicitly specified, the information provided in this report pertains to the Group.

Our reports covers the risks, opportunities and outcomes arising from our:

	Page
Material matters	24
Leadership report	20
Business strategy	26
Business model	28
Stakeholder engagement	30
Corporate governance	43
Remuneration report	51
Annual financial statements	59

### ASSURANCE AND REPORTING FRAMEWORKS

During the preparation of this report, the stipulations of the King IV Report on Corporate Governance for South Africa, 2016™ (“King IV”<sup>2</sup>) were duly considered. The independent external auditor, BDO South Africa Incorporated (“BDO”), has audited the financial statements and their report is available for review on pages 67 to 69.

The financial information contained within the consolidated annual financial statements, on pages 70 to 131, has been formulated following the guidelines of the International Financial Reporting Standards (“IFRS”), South African financial reporting requirements per Section 8.60 of the JSE Limited (“JSE”) Listings Requirements, and the Companies Act No 71 of 2008, as amended (“Companies Act”).

This report is further aligned with relevant reporting standards, frameworks, guidelines, regulations and best practices, including:

- The International Integrated Reporting Framework (“<IR> Framework”);
- King IV™; and
- The voluntary JSE Sustainability and Climate Change Disclosure Guidance.

<sup>2</sup> Copyright and trademarks are owned by the Institute of Directors South Africa NPC and all of its rights are reserved.

### MATERIALITY

In evaluating the content to be encompassed within this report, Heriot adheres to the principle of materiality. This report centres on the risks, prospects and hurdles that influence our capacity to generate, safeguard and curtail any depreciation of value for all stakeholders.

Executive management identifies, ranks and evaluates significant concerns before they are sanctioned and supported by the Board. These significant concerns undergo continuous assessment to confirm Heriot’s strategic significance within the evolving operational environment.

For further insights, please refer to our material matters elaborated on pages 24 and 25.

### TIME FRAMES

The following time frames, for purposes of this report, were agreed by our Board:

Short term	Less than one year
Medium term	One to three years
Long term	Three to 10 years

### FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements concerning Heriot’s future performance and potential. While these statements reflect our assessments and expectations during the report’s preparation, various inherent risks, uncertainties and significant factors could alter outcomes from what we anticipate. If underlying assumptions are proven incorrect, actual results may differ, potentially affecting our business and financial performance negatively.

By their nature, such forward-looking statements encompass both recognised and unknown risks, uncertainties and factors that might lead to materially different outcomes for Heriot’s performance, as well as industry results. These statements are valid only as of their issuance date, and Heriot is not obligated to update them in this report, except as mandated by law. It is important to note that any forward-looking statements within this report have not undergone review or reporting by the Company’s auditor.

### BOARD RESPONSIBILITY STATEMENT

Heriot maintains the development and implementation of a comprehensive assurance model, which offers both management and the Board a sense of confidence in the disclosed information. The Group is committed to upholding elevated standards across all disclosures and management evaluations. With guidance from the Audit and Risk Committee, the Board acknowledges its responsibility to ensure the accuracy and integrity of this report.

For an overview of the measures taken to enhance assurance within the Group, please refer to the Audit and Risk Committee’s report on page 62. Following examination and consultation, the Board has exercised its judgement and is of the belief that this report aligns with the <IR> Framework, addresses all pertinent concerns and presents a fair depiction of the Group’s performance for the reviewed year.

The Board authorised the publication of the report on 31 October 2023.

### REPORT APPROVAL

The Board acknowledges its responsibility to ensure the integrity and completeness of this report. The Board believes that this report addresses all material matters and offers a balanced and comprehensive view of Heriot’s strategic direction to prevent value erosion and create and preserve value for stakeholders in the short, medium and long term.

The Directors believe this report materially aligns with the <IR> Framework, providing a true and material account of the Group’s performance and strategic direction.

This report was prepared under the supervision of senior management and was submitted to the Audit and Risk Committee, which reviewed and recommended it to the Board for approval. The Board has unanimously approved this report for publication.

Steven Herring  
Chairman







Richard Herring  
Chief Executive Officer (“CEO”)

31 October 2023

**REQUEST FOR FEEDBACK**

We appreciate your feedback regarding the content and presentation of this report. Your input will contribute to enhancing the quality and significance of our future reports. Kindly share any feedback on reporting content or requests for copies by contacting Daniel Snoyman, Chief Financial Officer (“CFO”) at dsnoyman@heriot.co.za.

The following icons are used to illustrate our capital inputs:

-  **Financial capital**
-  **Manufactured capital**
-  **Intellectual capital**
-  **Human capital**
-  **Natural capital**
-  **Social and relationship capital**

6	Heriot at a glance
8	Group structure
10	Portfolio review
10	– Geographical profile
11	– Sectoral profile
16	– Tenant analysis profile
18	– Profile overview

Our diversified portfolio provides an appropriate balance of quality retail assets in non-metropolitan areas together with a profile of office, industrial, specialised and residential property located across South Africa.

# Group overview



# HERIOT AT A GLANCE

Heriot is a property holding and investment company that is listed in the “Diversified REITs” sector on the Alternative Exchange of the JSE. The Group is primarily invested in retail and industrial properties situated in areas with high growth potential.

At the reporting date, the property portfolio was valued at R9,258 billion (2022: R5,084 billion). This growth is predominantly attributable to the inclusion of investment property valued at R3,720 billion owned by Safari Investments RSA Limited (“Safari”) which was consolidated into Heriot’s results as at 30 June 2023. The Group’s primary objective is 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.

## OUR PURPOSE

As a pro-South African Real Estate Investment Trust (“REIT”), our purpose is to change people’s lives by creating opportunities that help us deliver sustainable value to our stakeholders.

## OUR PRIMARY OBJECTIVE

The primary objective of the Group is to acquire and develop yield-enhancing assets within South Africa to create a stable and diverse portfolio that generates secure and escalating net rental income streams.

## OUR VALUES

### Integrity

Upholding honesty, transparency and ethical behaviour in all interactions and decisions.

### Excellence

Striving for the highest standards of quality, performance and continuous improvement.

### Tenant-centricity

Putting tenants’ needs and satisfaction at the forefront of all operations.

### Collaboration

Fostering teamwork, open communication and co-operation to achieve common goals.

### Respect

Treating all individuals with dignity, inclusivity and fairness.

### Accountability

Taking responsibility for actions, outcomes and commitments made.

## WHAT WE DO

We grow and streamline our asset base by acquiring premium properties, redeveloping existing ones and divesting assets marked as non-core.

## 1.

### Acquire

We acquire quality assets that offer secure cash flows and low vacancies.

To do so, we evaluate assets and opportunities, investing in real estate that has the potential to deliver sustainable value.

## 2.

### Development

We redevelop properties to amplify their value and enhance the tenant and customer experience.

## 3.

### Let and manage

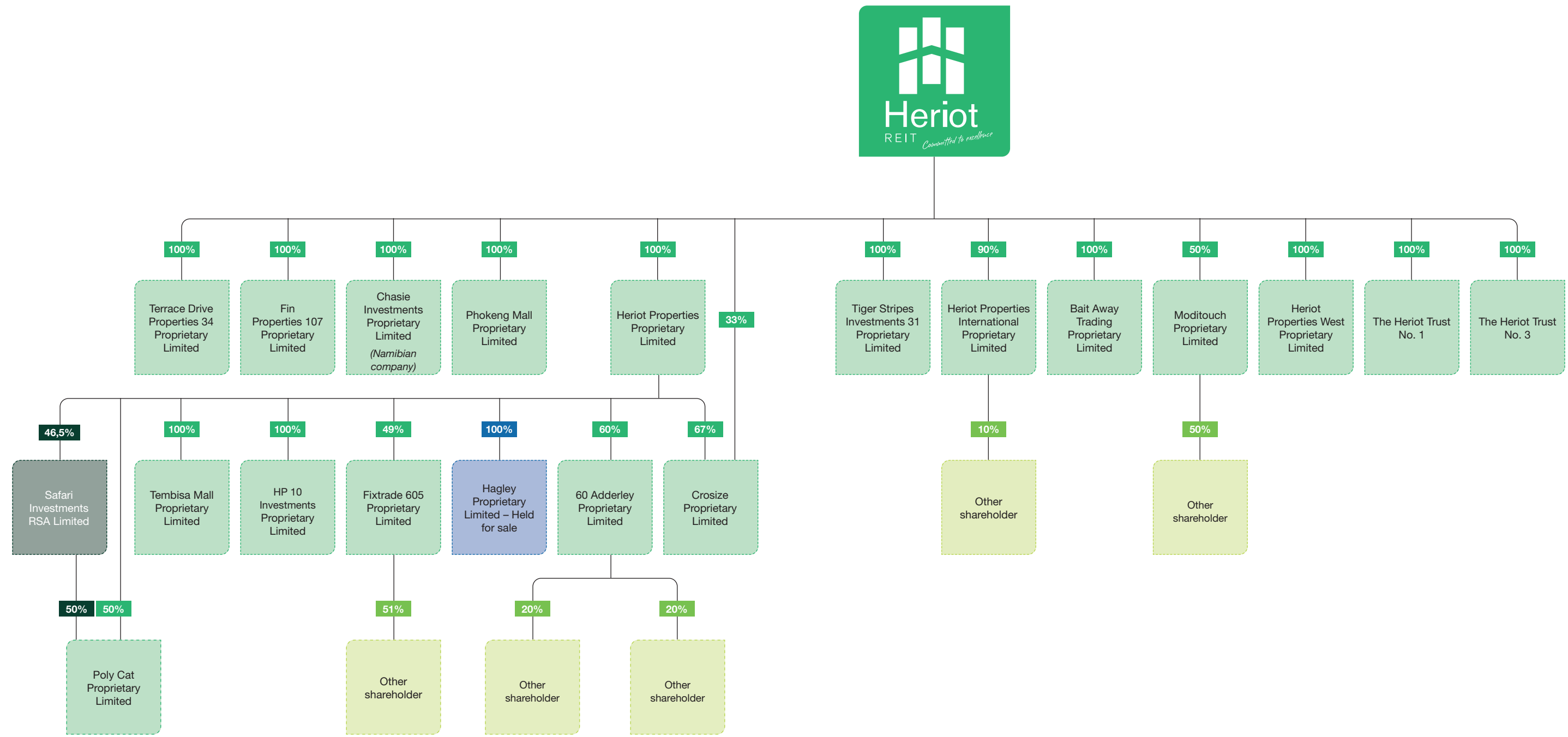
We attract quality tenants by providing well-maintained buildings and offering satisfactory customer service.

## 4.

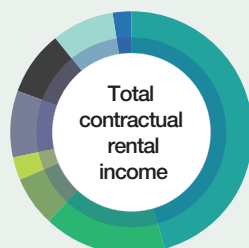
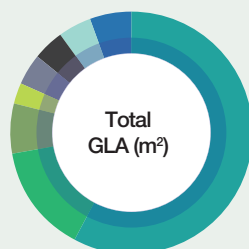
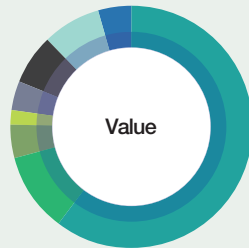
### Recycle

We dispose of non-core properties and reinvest capital into opportunities that present superior potential for value creation and debt reduction.

# GROUP STRUCTURE

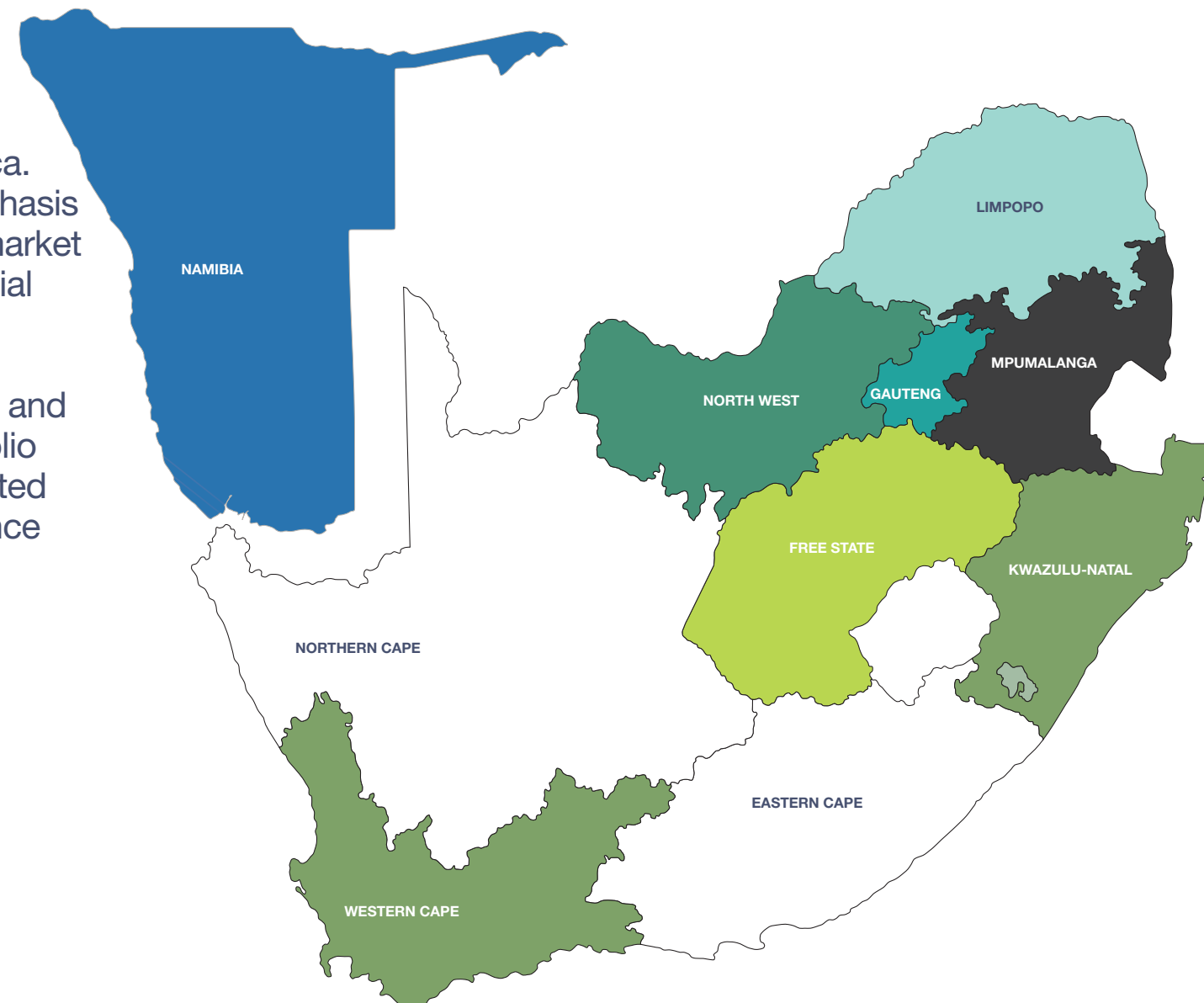


## GEOGRAPHICAL PROFILE



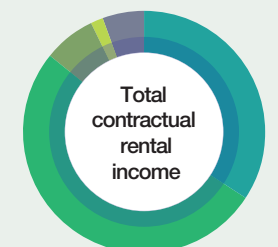
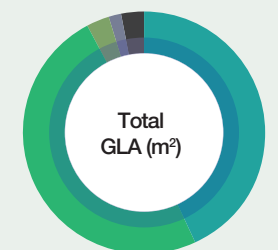
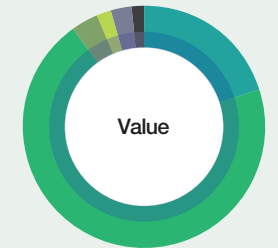
# PORTFOLIO REVIEW

Heriot maintains investments in a diverse range of property sectors within South Africa. The primary emphasis is on emerging market retail and industrial properties. The combination of our retail assets and industrial portfolio has demonstrated Heriot's resilience during these demanding periods.



The specialised property comprises 8 382ha of industrial farms and the inclusion of this in the analysis by GLA (m²) would not provide meaningful analysis. The specialised property, measured in hectares, has been analysed separately.

## SECTORAL PROFILE



Property	Address	GLA m²	Average rent per m² Rand	Weighted average escalation % of GLA	Weighted average expiry % of GLA	Vacancy m²
RETAIL						
Tsakane*	Modjadji and Mandela Streets, Tsakane, Brakpan, Gauteng	19 684	170,9	6,6	2,9	127
Tembisa	Cnr Andrew Mapheto Drive and Isimuku Road, Tembisa, Gauteng	25 014	228,3	6,0	2,7	61
Phokeng Mall	Sun City Main Road, Phokeng, North West	16 918	159,2	6,3	2,6	100
Shoprite Fish Hoek	54 Main Road, Fish Hoek, Western Cape	3 497	154,9	7,1	1,1	–
Shoprite Sea Point	Main Road, The Towers, Sea Point, Cape Town, Western Cape	2 638	198,5	6,1	4,6	–
Score Supermarket Itsoseng	President Mangope Drive, Itsoseng, North West	1 500	81,5	6,0	1,1	240
Siyabuswa Mall	Bongimfundo Street, Siyabuswa, Mpumalanga	26 459	160,9	6,3	3,8	341
Burgersfort Mall	Cnr Dirk Winterbach Road and Mpumula Street, Burgersfort, Limpopo	15 079	207,3	6,5	2,5	–
Shoprite Athlone	Cnr Birchwood and Cornhill Streets, Athlone, Western Cape	3 832	125,5	6,6	2,2	–
Shoprite Kempton Park	Cnr West Street and Oak Avenue, Kempton Park, Johannesburg, Gauteng	6 799	58,6	6,5	2,0	–
Shoprite Emmarentia	Barry Hertzog Avenue, Emmarentia, Johannesburg, Gauteng	3 840	118,0	6,0	2,3	–
Shoprite Rustenburg	10 Kroep Street, Ou Dorp, Rustenburg, North West	8 161	118,6	6,0	0,4	–
Atlyn – Atteridgeville	Corner Phudufufu and Khoza Streets, Atteridgeville, Gauteng	31 238	170,3	6,4	2,1	–
Denlyn – Mamelodi	Corner Stormvoël and Maphalla Roads, Mamelodi, Gauteng	34 870	206,5	5,9	2,9	45
Victorian Village – Heidelberg	Corner Voortrekker and Jordaan Streets, Heidelberg, Gauteng	11 967	138,7	5,2	4,5	482
Thornhill – Polokwane	Corner Veldspaat Street and Munnik Avenue, Polokwane, Limpopo	12 390	150,2	6,3	2,2	121
Platz am Meer – Swakopmund, Namibia	Corner Albatros and Tavorite Streets, Swakopmund, Namibia	21 503	100,1	5,8	1,7	3 576
Thabong – Sebokeng	Moshoeshoe Street, Sebokeng, Gauteng	34 661	157,9	6,3	4,6	360
Nkomo Village – Atteridgeville	49 Tlou Street, Atteridgeville, Gauteng	23 114	155,7	6,5	5,8	105
Soweto Day Hospital**	14475, Isixyabesha Street, Extension 6, Protea Glen, Gauteng	1 380	23,2	6,0	5,7	–
Mnandi – Atteridgeville*	Maunde Street, Atteridgeville, Gauteng	8 717	149,2	7,0	9,0	1 108
Total retail		313 261	164,6	6,2	3,3	6 666
INDUSTRIAL						
Cleveland	11 Cleveland Road, Cleveland Ext 5, Johannesburg, Gauteng	8 966	34,0	8,0	0,7	–
Hermans (Super Group) Midrand	875 and 876 Freight Road, Louwlandia, Centurion, Gauteng	3 069	179,4	8,0	2,4	–
Denver	65 Mimetes Avenue, Denver, Johannesburg, Gauteng	34 100	48,5	7,0	1,3	–
Mpact Pinetown	17 Oppenheimer Street, Pinetown, KwaZulu-Natal	23 867	49,0	6,0	5,0	–
Mpact Epping	Lossack Street, Epping Extension 2, Cape Town, Western Cape	28 894	47,0	7,0	1,5	–
Mpact Kuilsriver	40 Fabriek Street, Kuilsriver, Western Cape	20 409	37,8	8,5	0,6	–
Mpact Brakpan	1 Molecule Road, Vulcania, Brakpan, Gauteng	24 936	23,5	8,0	3,3	–
Wadeville	Cnr Dekema and Lantern Roads, Wadeville, Johannesburg, Gauteng	23 000	48,7	6,0	3,6	–
Jupiter Park*	Cnr Barlow Road and Cavaliers Drive, Jupiter, Elandsfontein, Gauteng	24 911	48,7	4,9	5,4	5 467
ABB Alrode	4 and 6 Clarke Street, Alrode, Johannesburg, Gauteng	18 605	45,7	6,0	1,8	1 728
Metro Devland	Cnr East Street and Piston Road, Soweto, Devland, Johannesburg, Gauteng	6 635	61,9	8,0	5,9	–
Metro Hyper Windhoek	Erf 1211, Klein Kuppe, Windhoek, Namibia	13 500	81,6	6,3	3,6	–
Bloemfontein	19 Hoof Laan, Estoire, Bloemfontein, Free State	17 906	73,3	7,5	5,0	–
Mount Edgecombe	27 Siphosethu Road, Mount Edgecombe, Durban, KwaZulu-Natal	18 136	69,6	6,0	2,3	–
Hagley***	Nooiensfontein Road, Hagley, Cape Town, Western Cape	8 086	–	–	–	–
Total industrial		275 020	51,3	6,8	2,9	7 195

\* Heriot owns a 50% undivided share in the property. The table above reflects 50% of the property’s GLA.

\*\* Properties held for sale as at 30 June 2023.

\*\*\* This property was vacated towards the end of the financial year to facilitate the development of a new distribution centre. At year end, the property has been classified as held for sale.

Safari properties.



Property	Address	GLA m²	Average rent per m² Rand	Weighted average escalation % of GLA	Weighted average expiry % of GLA	Vacancy m²
OFFICE						
Super Group	27 Impala Road, Chiselhurst, Sandton, Gauteng	3 702	335,1	6,0	5,2	–
132 Adderley	132 Adderley Street, Cape Town, Western Cape	4 946	170,6	6,0	2,2	–
Melrose Arch – Unit 9a	Unit 9a, 1st Floor, 3 Melrose Boulevard, Melrose Arch, Johannesburg, Gauteng	309	285,3	5,0	2,2	–
Melrose Arch 4th Floor	4th Floor, 3 Melrose Boulevard, Melrose Arch, Johannesburg, Gauteng	3 094	250,1	5,7	1,1	899
Wynberg Mews	1 Brodie Road, Wynberg, Cape Town, Western Cape	7 118	95,1	6,9	0,3	660
Total office		19 169	194,8	6,4	1,8	1 559
SPECIALISED – PAPER PLANTATIONS						
Lions Glen/Ihlati/Geluk/Gemsbokfontein*	Lions Glen – North West Ihlati – Holkrans, KwaZulu-Natal Geluk – Mpumalanga Gemsbokfontein – Limpopo	*	77,0	7,2	9,8	–
Hinze*	Farm Vlakplaats 201, KwaZulu-Natal	*	161,4	6,0	2,0	–
Newbrough Grange*	Keerom 1190, KwaZulu-Natal	*	97,2	8,8	2,8	–
Bushmans Bend*	Portion 1 of Bushmans Bend 433, Mpumalanga	*	85,0	7,2	2,5	–
Total specialised			89,8	7,2	7,6	–
Residential						
The Heriot**	2 Adderley Street, Cape Town, Western Cape	7 580	278,5	–	–	–
Linksvew	13 Corlett Drive, Illovo, Johannesburg, Gauteng	2 690	144,4	7,3	0,7	141
Total residential		10 270	245,1	8,0	0,7	141
Other – undeveloped land						
Lynnwood		13 133	–	–	–	–
Total other – undeveloped land		13 133	–	–	–	–
Total investment property		630 853	115,9	6,5	3,1	15 561
Property under development						
Mowbray	Cnr Main Road and Rhodes Avenue, Rosebank, Mowbray, Western Cape	5 532	–	–	–	–
Total property under development		5 532	–	–	–	–
Total investment property and property under development		636 385	115,9	6,5	3,1	15 561

\* The specialised property comprises 8 382ha of industrial farms and the inclusion of this in the analysis by m² would not provide meaningful analysis of the portfolio as a whole. Further rental rates are quoted per hectare.

\*\* At the end of the financial year, The Heriot apartments moved into the aparthotel model with the majority of revenue being derived from daily room sales. Average room rates range from R400 to R2 700 per night which are dependent on length of stay, demand and seasonality. Average occupancy for units that were operational on this model during the current financial year was 60%.

Average annualised property portfolio yield of 8,4%.

TENANT ANALYSIS PROFILE

Tenant profile	Based on rental %	Based on rental GLA (m²)* %	Based on GLA (ha)* %
A	73,4	77,6	100,0
B	9,8	7,2	–
C	16,8	12,8	–
Vacant	–	2,4	–
<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 325 tenants.

WEIGHTED AVERAGE LEASE EXPIRY (YEARS)

Sector	GLA (m²)* Number of years	GLA (ha)* Number of years	Gross rental Number of years
Industrial	2,94	–	3,12
Retail	3,28	–	2,98
Office	1,79	–	3,05
Specialised	–	7,59	6,79
Residential	0,70	–	0,78
<b>Total</b>	<b>3,08</b>	<b>7,59</b>	<b>3,05</b>

WEIGHTED AVERAGE LEASE ESCALATION

Sector	Based on GLA (m²)* %	Based on GLA (ha)* %
Retail	6,2	–
Office	6,4	–
Industrial	6,8	–
Residential	8,0	–
Specialised	–	7,2
<b>Weighted average/total</b>	<b>6,5</b>	<b>7,2</b>

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

LEASE EXPIRY PROFILE

Total portfolio	Total GLA (ha)* %	Total GLA (m²)* %	Total gross rental %
Vacant	–	2,5	–
Monthly	–	–	–
2024	–	22,4	24,4
2025	10,1	19,2	18,3
2026	19,3	10,0	17,0
2027	–	17,0	12,0
2028	–	13,8	13,5
+ June 2029	70,6	15,1	14,8
<b>Total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

Industrial	Total GLA (m²) %	Total gross rental %
Vacant	2,7	–
Monthly	–	–
2024	15,7	12,4
2025	24,9	23,6
2026	1,2	4,8
2027	25,0	23,0
2028	15,6	18,6
+ June 2029	14,9	17,6
<b>Total</b>	<b>100,0</b>	<b>100,0</b>

Retail***		
Vacant	2,3	–
Monthly	–	–
2024	26,6	27,4
2025	15,0	17,6
2026	17,2	20,2
2027	11,1	10,0
2028	13,0	13,2
+ June 2029	14,8	11,6
<b>Total</b>	<b>100,0</b>	<b>100,0</b>

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

\*\* 132 Adderley, floors 1 to 10 equating to 4 225m² are being refurbished into 151 aparthotel units and have been excluded from the office lease expiry profile calculation.

\*\*\* Dis-Chem occupies 827m² at The Heriot located at 2 Adderley Street. The lease has been included as part of the retail sector for lease expiry calculation purposes.

\*\*\*\* At the end of the financial year, The Heriot apartments moved onto the aparthotel model with the majority of revenue being derived from daily room sales. Average room rates ranged from R400 to R2 700 per night which were dependent on length of stay, demand and seasonality. Average occupancy for units that were operational on this model during the current financial year was 60%.

Office**	Total GLA (m²) %	Total gross rental %
Vacant	10,4	–
Monthly	–	–
2024	44,2	29,3
2025	3,8	3,6
2026	16,6	18,8
2027	0,2	0,1
2028	–	–
+ June 2029	24,8	48,2
<b>Total</b>	<b>100,0</b>	<b>100,0</b>

Specialised*	Total GLA (ha)* %	Total gross rental %
Vacant	–	–
Monthly	–	–
2024	–	1,9
2025	10,1	18,2
2026	19,3	19,4
2027	–	–
2028	–	–
+ June 2029	70,6	60,5
<b>Total</b>	<b>100,0</b>	<b>100,0</b>

Residential****		
Vacant	8,8	–
Monthly	–	–
2024	64,2	70,9
2025	27,0	29,1
2026	–	–
2027	–	–
2028	–	–
+ June 2029	–	–
<b>Total</b>	<b>100,0</b>	<b>100,0</b>

PORTFOLIO OVERVIEW

Sector	Retail	Industrial	Office	Spe- cialised*	Resi- dential	Other – vacant land	Property under develop- ment	Total
GLA m²	313 261	275 020	19 169	*	10 270	13 133	5 532	636 385
Vacancy m²	6 666	7 195	1 559	–	141	–	–	15 561
Vacancy (%)	2,1	2,6	8,1	–	1,4	–	–	2,4
Average rental per m² (R)	164,6	51,3	194,8	89,8	245,1	–	–	115,9
Weighted average lease escalation (GLA) (%)	6,2	6,8	6,4	7,2	8,0	–	–	6,5
Weighted average lease expiry (GLA) – years	3,3	2,9	1,8	7,6	0,7	–	–	3,1
Value (R'000)	6 481 500	1 867 306	324 000	194 100	266 000	34 000	91 345	9 258 251

\* The specialised property comprises 8 382ha of industrial farms and the inclusion of this in the analysis by m² would not provide meaningful analysis of the portfolio as a whole. Further rental rates are quoted per hectare.

Heriot delivered remarkable results, which demonstrates the resilience of our portfolio.

- 20
- Chairman's and Chief Executive Officer's report
- 24
- Material themes impacting value creation
- 26
- How our strategy supports value creation
- 28
- Our business model
- 30
- Stakeholder engagement
- 32
- Risk management

Value  
creation



# CHAIRMAN'S AND CHIEF EXECUTIVE OFFICER'S REPORT



Steven Herring

Richard Herring

## THE OPERATING ENVIRONMENT

Despite the current operating environment, Heriot delivered remarkable operational performance, with NOI growth of 13,8% and distributable earnings growth of 4,2%. These results demonstrate the resilience of our portfolio and, in particular, the strength of our emerging market retail and industrial properties.

The current local and global macro conditions have created difficult trading conditions for Heriot in the short to medium term due to constrained economic growth, increasing interest rates and high inflation. Further structural decay has increased municipal costs, service delivery failures and load shedding, thereby compounding occupancy costs. The property sector is also facing challenges and threats from the construction mafia, which increases development costs.

South Africa's current economic growth rate of 0,9% is too low. Government must prioritise lowering unemployment (currently at a staggering 32,9%), promoting entrepreneurship and growing our economy; this can be achieved by providing opportunities for investors and exporters, seeking ways to grow South Africa's middle class and by generating opportunities in consumer-oriented sectors.

## FINANCIAL RESULTS

Our property portfolio was valued at R9,258 billion (2022: R5,084 billion). This growth is predominantly attributable to the inclusion of investment property valued at R3,720 billion owned by Safari Investments RSA Limited ("Safari") which was consolidated into our financial results as at 30 June 2023.

Our distributable earnings of R271,552 million, or 106,33 cents per share was 4,2% ahead of distributable earnings of 102,05 cents per share in 2022.

NOI for the year grew by 13,8%. This growth was achieved through normal rental escalations of 6,0% to 8,0% together with the letting of industrial vacancies, growth in the retail portfolio through the expansion of the Siyabuswa Mall and in the residential portfolio from enhanced rentals achieved through short-term lettings. However, the office sector is still suffering the effects of the COVID-19 pandemic with reduced rentals on lease renewals and challenges in filling vacancies.

While we achieved double-digit growth from our property operations, distributions were negatively impacted by the 350bps increase in the repo rate during the reporting period as our debt was entirely comprised of floating facilities. As a result, the average cost of borrowings increased from 6,29% in 2022 to 8,68% this year, reducing distributable earnings growth to 4,2%.

Our tenancies remained stable throughout the reporting period with vacancies reducing from 3% at 30 June 2022 to 2,4% at 30 June 2023. Post year end, vacancies have reduced to 1,9%.

Effective cash management and strong cash flows support the payment of 100% of distributable earnings as a dividend and therefore, after accounting for the interim dividend of 52,04 cents paid on 11 April 2023, we declared a final dividend of 54,29 cents per share.

Our net asset value per share increased by 22,0% from R12,06 at 30 June 2022 to R14,72 at 30 June 2023. This increase is mainly attributable to the consolidation of Safari's statement of financial position at 31 March 2023, which resulted in an unrealised, non-distributable bargain gain of R464,3 million for the reporting period. This growth is further attributable to an increase of R289,3 million in the valuation of our property portfolio, which was supported by the positive rental escalations achieved on renewals and re-lets across the portfolio during the period.

## INVESTMENT IN SAFARI

Through the general offer made by Heriot to acquire shares in Safari at an offer price of R5,60 per share, we acquired a further 23,6 million shares for R132,5 million, increasing our shareholding from 19,2% to 26,8%.

Subsequent to the expiry of the general offer in December 2022, Heriot continued to acquire parcels of Safari shares, increasing its holding to 119,9 million shares, or 39,1%, at 31 March 2023. On that date, Safari's firm intention to repurchase and cancel the 53,0 million Southern Palace shares was unanimously approved by shareholders, and this, together with Heriot's disposal of 1,5 million shares back to Heriot's holding company, Heriot Investments Proprietary Limited ("Heriot Investments"), resulted in Heriot's effective shareholding increasing to 46,5% at the reporting date.

Post the repurchase and cancellation of the Southern Palace shares by Safari, Heriot was deemed to effectively control Safari from an accounting perspective. On this basis, Heriot equity-accounted Safari's 12-month results from 1 April 2022 to 31 March 2023, the date prior to which Heriot gained effective control, and consolidated Safari's statement of financial position at 31 March 2023 into its results at 30 June 2023.

## INVESTMENT PROPERTY

Our property portfolio comprises 48 properties across all major sectors (mostly convenience and community centres in non-metropolitan areas) within South Africa. At year end, our portfolio was independently valued at R9,258 billion (2022: R5,084 billion), using the discounted cash flow and comparable sales methods. The significant increase predominantly relates to:

- the inclusion of Safari's portfolio, comprising nine properties valued at R3,720 billion, including two assets held for sale; and
- growth of R289,3 million in the value of our portfolio.

On a like-for-like basis, the value of the investment property portfolio increased by an effective 5,4% from 30 June 2022 to 30 June 2023. The overall increase in the value of the portfolio is reflective of the resilience displayed by the retail and industrial properties in the portfolio.

Our combination of retail and industrial assets have proved to be a defensive mix through challenging times.

During the period, we completed the development of the 8 141m<sup>2</sup> extension to the Siyabuswa Mall which officially opened on 24 November 2022. The R95,4 million extension is projected to yield 15%.

The Heriot, located at 2 Adderley Street in Cape Town and which forms part of our residential portfolio, recently changed its strategy from the long-term letting model to the aparthotel letting model, thereby benefiting from the strength of the hospitality sector in Cape Town. This new strategy is yielding positive results and a similar model will be adopted at 132 Adderley Street. On 1 January 2023, we commenced with the redevelopment of the 132 Adderley Street property to convert the 4 946m<sup>2</sup> commercial property into a mixed-use commercial and residential space. The refurbishment is expected to be completed in December 2023 at an estimated cost of R90 million and a yield of 14%.

Over and above our investment property portfolio, we own a property, located in Cape Town, which will be redeveloped into student accommodation. We are continually assessing various feasibilities and engaging with potential partners to identify the most suitable model for this property that is well-located near the University of Cape Town.

During the reporting period, Heriot entered into an agreement to develop a 35 000m<sup>2</sup> distribution centre for Ackermans on the property owned by Hagley 3 865 Proprietary Limited (“Hagley”), a Heriot subsidiary. In order to mitigate any development risks associated with the project, Heriot disposed of Hagley, at cost, to Heriot Investments, Heriot’s main shareholder. However, Heriot has the option to repurchase up to 100% of Hagley’s equity at cost, which option expires on 30 June 2028. As this option is exercisable at the discretion of Heriot, we are still deemed to have control over Hagley and therefore, Hagley has been consolidated into Heriot’s results at the reporting date. The Hagley property has been reflected as a non-current asset held for sale at 30 June 2023.

FUNDING

Our secured borrowings of R3,834 billion (2022: R2,216 billion), include R1,3 billion of Safari’s debt facilities which equate to a gearing ratio of 41,1% (30 June 2022: 38,5%). The increase in gearing is primarily as a result of debt of R292,7 million secured for the acquisition of the additional shares in Safari.

Our average cost of borrowings, including the amortisation of facility raising fees, was 8,68% for the reporting period (30 June 2022: 6,29%). The significant rate hikes have been the main contributor to the increased cost of borrowings. As Safari’s results for the three months ended 30 June 2023 were not included in our results for the reporting period, the average cost of borrowings reflects the Heriot Group alone. Throughout the reporting period, 100% of Heriot’s debt was comprised of floating facilities but with the consolidation of Safari at 30 June 2023, 10% of borrowings, equating to R394,0 million, are hedged at the reporting date.

The Board continues to monitor interest rate risk on a regular basis. The average remaining term of the debt is 2,2 years. Debt facilities held by Safari amounting to R608,9 million are expiring within 12 months from the reporting date and have been reflected as current. Safari’s management is in advanced stages of discussions with the funders for the refinance of these facilities and is confident that the facilities will be refinanced on similar terms and conditions.

INTEGRATING SUSTAINABILITY

We are committed to integrating sustainability considerations into our strategy and operations. Due to the power constraints facing the country, unreliable infrastructure and climate change, we have continued to invest in renewable energy projects and water harvesting systems.

To date, we have installed solar plants across five major retail centres at a cost of R46,0 million. The plants are fully operational with a combined 5,78MWp of installed capacity. We plan to increase the current solar roll-out rate by 50% to achieve a total portfolio of 12MWp in 2024.

Eight groundwater harvesting plants are in operation with further plants in the exploration phase.

We remain 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 and offering local employment opportunities and are committed to continuing with all initiatives in this regard. For more details on our sustainability initiatives, please refer to pages 36 to 42.

APPROACH TO GOVERNANCE

Our approach to corporate governance and leadership supports our value creation mandate. The Board ensures sound governance practices are entrenched in our corporate values, culture and business processes, and all internal controls are designed to promote an awareness about risk and compliance.

Overall, the Board’s performance was satisfactory, and it largely created value and achieved its mandate. For more details on governance, please refer to pages 44 to 50.

OUTLOOK

Our future prospects are inherently linked to the operating environment and the significant macro issues facing Heriot. The Board is committed to a proactive yet conservative approach to mitigate the effects of elevated interest rates, increasing costs of fuel, electricity shortages, unprecedented levels of unemployment and high levels of inflation. Our goal is to be less reliant on the government and its infrastructure to run our properties, especially relating to security, electricity and water services.

We remain committed to retaining quality tenants, reducing vacancies and exploring opportunities to create value for our stakeholders. We understand that we can ensure long-term relevance and sustainability by improving the quality of our offering and balancing the needs of our tenants with the requirements of our shareholders and funders.

We continue to explore strategic opportunities to extract value from our existing portfolio while continuing to grow our asset base through the acquisition of high-yielding properties in our target markets. We expect household spending to remain constrained and the challenging operating environment to persist. We expect our retail assets to benefit from improved economic activity, however, the high unemployment rate and rising interest rates are expected to erode disposable income.

Despite difficult trading conditions, management is pursuing growth of 3,0% to 7,0% in the dividend per share for the year ending 30 June 2024.

WITH SINCERE GRATITUDE

We thank the Board for its commitment and valuable contributions over the year.

We are extremely proud of our exceptional results and thank our executive team and employees for their resilience, hard work and dedication during the year.

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

**Steven Herring**  
*Chairman*  
  
31 October 2023

**Richard Herring**  
*Chief Executive Officer*



# MATERIAL THEMES IMPACTING VALUE CREATION

Our Board has taken a comprehensive approach to identify material matters that could influence our ability to create value in the short, medium and long term. This method entails a rigorous assessment of potential risks and opportunities. We incorporate these matters into our strategy development process to ensure we maintain business model effectiveness.

Material themes	Material matters	Impact on Heriot	Key focus areas	Time frame
Uncertain macroeconomic environment	<ul style="list-style-type: none"><li>• Macroeconomic challenges</li><li>• Geopolitical and socioeconomic uncertainty</li><li>• Market volatility</li></ul>	<ul style="list-style-type: none"><li>• Changing disposable income</li><li>• Dampened business and consumer confidence</li></ul>	<ul style="list-style-type: none"><li>• Disposal of non-core assets</li><li>• Improve portfolio diversification</li><li>• Increase income generation</li><li>• Manage inflationary effects</li><li>• Maximise performance from the existing portfolio</li></ul>	Short to medium term
Uncertain property fundamentals	<ul style="list-style-type: none"><li>• Business model adaptability</li><li>• Portfolio diversification and resilience</li><li>• Tenant mix</li></ul>	<ul style="list-style-type: none"><li>• Increased cost of occupancy</li><li>• Liquidity impacts</li><li>• Vacancy levels</li></ul>	<ul style="list-style-type: none"><li>• Diversify revenue streams</li><li>• Rental collections</li><li>• Tenant retention</li><li>• Lease escalations</li><li>• Optimise tenant mix</li><li>• Reduce variable costs</li><li>• Refurbishments and maintenance</li><li>• Disposal of non-core assets</li></ul>	Short, medium and long term
Group structure and portfolio mix changes	<ul style="list-style-type: none"><li>• Investment in Safari</li><li>• Business model adaptability</li><li>• Disposal of non-core assets</li><li>• Portfolio diversification</li></ul>	<ul style="list-style-type: none"><li>• Heriot's shareholding in Safari increased to 46,5%</li><li>• Safari investment positively impacts Heriot's growth</li><li>• Opportunity to diversify our revenue streams</li><li>• Refocus on core assets</li></ul>	<ul style="list-style-type: none"><li>• Right-size portfolio</li><li>• Increase shareholding in Safari</li></ul>	Short, medium and long term

Material themes	Material matters	Impact on Heriot	Key focus areas	Time frame
Load shedding, municipal infrastructure deterioration and poor service delivery	<ul style="list-style-type: none"><li>• Impact of load shedding</li><li>• Municipal services risks</li><li>• Increasing property rates and taxes</li><li>• Increased cost of occupancy</li><li>• Increasing administrative costs</li><li>• Regulatory burden in the operating environment</li><li>• Tenant sustainability</li></ul>	<ul style="list-style-type: none"><li>• Unreliable electricity supply</li><li>• Infrastructure failures and poor municipal service delivery are disruptive to our business</li><li>• Rising administration costs negatively impact property valuations and increase the cost of occupancy</li></ul>	<ul style="list-style-type: none"><li>• Conservative treasury management in respect of municipal payments</li><li>• Improve operational efficiencies</li><li>• Proactive asset management</li><li>• Address tenant and community requirements</li><li>• Ensure appropriate tenant mix</li><li>• Thorough review of municipal valuations and objections lodged where necessary</li></ul>	Short to medium term
Enhance sustainability	<ul style="list-style-type: none"><li>• Energy efficiency and security</li><li>• Water consumption and backup</li><li>• Climate change</li></ul>	<ul style="list-style-type: none"><li>• Improved governance</li><li>• Improved energy efficiency</li><li>• Reduced carbon footprint</li><li>• Improved water consumption</li></ul>	<ul style="list-style-type: none"><li>• Integrate ESG considerations into Group strategy and operations</li><li>• Expand solar power generation</li></ul>	Short, medium and long term



# HOW OUR STRATEGY SUPPORTS VALUE CREATION

## OUR STRATEGIC PILLARS

Our strategy's implementation is underpinned by our strategic pillars. These pillars serve as essential mechanisms that directly impact our capacity to generate value over the short-, medium- and long-term horizons.

	1. Delivering stakeholder value	2. Diversified portfolio	3. Enhanced return on assets	4. Optimised balance sheet
Our focus areas	<ul style="list-style-type: none"><li>Active stakeholder and tenant engagement</li><li>Understanding changing consumer behaviour and preferences</li><li>Understanding tenant expectations</li></ul>	<ul style="list-style-type: none"><li>Defensive mix of retail and industrial assets</li><li>Disposal of non-core assets</li><li>Investing in long-term quality</li><li>Portfolio redevelopment and upgrades</li><li>Reinvesting in core assets</li><li>Strategic controlling stake in Safari</li></ul>	<ul style="list-style-type: none"><li>Diversifying rental offerings</li><li>Diversifying revenue streams</li><li>Investing in solar energy</li><li>Managing cost of occupancy</li><li>Optimising tenant mix</li></ul>	<ul style="list-style-type: none"><li>Funding diversity</li><li>Improving liquidity</li><li>Lowering loan-to-value ratio</li><li>Recycling non-core assets</li><li>Reducing debt</li><li>Strengthening balance sheet</li><li>Treasury management</li></ul>

Our ability to create and safeguard value hinges on various factors, including the operational landscape, our existing business conditions, the accessibility of essential resources and the strength of our relationships with stakeholders.







## OUR STRATEGY PER SECTOR

Our diversified portfolio plays a crucial role in risk mitigation and positions us to capitalise on opportunities within the ongoing property cycle. We remain focused on expanding and optimising our asset base; this involves acquiring premium properties, divesting of non-core assets and revitalising our core assets through redevelopment and reinvestment.

	Retail	Office	Industrial	Specialised	Residential
Strategy	<ul style="list-style-type: none"><li>Attract shoppers</li><li>Focus on long-term retail property fundamentals</li><li>Increase shopper dwell time</li><li>Optimise tenant mix</li><li>Repurpose space</li><li>Retain high-quality tenants</li><li>Understand changing consumer behaviour and preferences</li><li>Acquire quality assets that generate long-term growth</li><li>Dispose of non-core assets</li></ul>	<ul style="list-style-type: none"><li>Active stakeholder and tenant engagement</li><li>Focus on long-term quality leases</li><li>Repurpose/redevelop office space</li><li>Dispose of non-core assets</li></ul>	<ul style="list-style-type: none"><li>Acquire quality assets that generate long-term growth</li><li>Dispose of non-core assets</li><li>Retain high-quality tenants</li><li>Focus on long-term quality leases</li></ul>	<ul style="list-style-type: none"><li>Renew existing leases at higher rentals</li></ul>	<ul style="list-style-type: none"><li>Implement aparthotel model strategy in Cape Town</li><li>Dispose of non-core assets in Johannesburg</li></ul>

# OUR BUSINESS MODEL

Our business model focuses on the life cycle of our property assets – purchasing quality assets, extracting value through redevelopment, letting to quality tenants and recycling funds from the sale of non-core assets back into the core portfolio.

Input	Business activities	Outputs	Outcomes
 <b>Financial capital</b> <ul style="list-style-type: none"> <li>Debt funding</li> <li>Equity funding</li> <li>Property disposal proceeds</li> <li>Rental income</li> </ul>	<ul style="list-style-type: none"> <li>Delivering on our strategy</li> <li>Effective capital and debt management</li> <li>Financial management</li> <li>Obtaining capital from debt funders</li> <li>Optimising property portfolio</li> <li>Pursuing investment opportunities</li> <li>Recycling capital received from non-core disposals</li> </ul>	<ul style="list-style-type: none"> <li>22,0% growth in net asset value per share to R14,72 (2022: R12,06)</li> <li>Average cost of debt: 8,68% (2022: 6,29%)</li> <li>Distributable earnings growth of 4,2% (2022: 6,29%)</li> <li>Distributable income payout ratio: 100% (2022: 100%)</li> <li>Dividend per share: 106,33 cents (2022: 102,05 cents)</li> <li>Gearing ratio of 41,1% (2022: 38,5%)</li> <li>Investment properties valued at R9,258 billion (2022: R5,084 billion)</li> <li>Net asset value of R14,72 per share (2022: R12,06 per share)</li> <li>NOI growth of 13,8%</li> <li>Capital expenditure of R178,5 million</li> </ul>	<ul style="list-style-type: none"> <li>Sustainable dividend growth over the long term</li> <li>Deliver attractive returns to our investors and shareholders</li> <li>Quality core portfolio</li> </ul>
 <b>Manufactured capital</b> <ul style="list-style-type: none"> <li>Net asset value of R3,9 billion</li> <li>Capital expenditure on new and existing properties</li> <li>Tenant installation allowances</li> <li>636 385m² total GLA</li> </ul>	<ul style="list-style-type: none"> <li>Asset management</li> <li>Building maintenance</li> <li>Delivering on developments and refurbishments</li> <li>Leasing and administration</li> <li>Pursuing appropriate yield-enhancing acquisitions</li> <li>Relationship management</li> <li>Sale of non-core assets</li> <li>Seeking expansion and redevelopment opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Arrears at 0,8%, excluding Safari (2022: 1,8%)</li> <li>Rental growth of 10,8% (2022: 7,0%)</li> <li>Overall vacancy of 2,4% (2022: 3,0%)</li> <li>Portfolio valued at R9,258 billion (2022: R5,084 billion)</li> <li>48 investment properties (2022: 39)</li> <li>636 385m² GLA (2022: 435 455m²)</li> </ul>	<ul style="list-style-type: none"> <li>Deliver quality spaces to our tenants</li> <li>Optimal tenant mix to meet customer demands</li> <li>Strong internal team with established relationships with tenants</li> <li>Enhanced portfolio in line with our strategy</li> <li>Quality core portfolio</li> </ul>
 <b>Intellectual capital</b> <ul style="list-style-type: none"> <li>Employee and tenant management processes</li> <li>Experienced management team and Board of Directors</li> <li>Governance structures</li> <li>Property skills</li> </ul>	<ul style="list-style-type: none"> <li>Information management</li> <li>Stakeholder communication</li> </ul>	<ul style="list-style-type: none"> <li>Retention of scarce property skills</li> <li>Understanding of changing consumer behaviour</li> </ul>	<ul style="list-style-type: none"> <li>Ethical leadership</li> <li>High-performance culture</li> </ul>
 <b>Human capital</b> <ul style="list-style-type: none"> <li>Ethical culture and values</li> <li>Fair remuneration</li> <li>Skills development and training</li> </ul>	<ul style="list-style-type: none"> <li>Education and skills training</li> <li>Employee remuneration</li> <li>Health and safety</li> </ul>	<ul style="list-style-type: none"> <li>Employee average tenure of 6,8 years</li> <li>Employment equity status</li> <li>R402 500 spent on skills development training</li> <li>No injuries</li> </ul>	<ul style="list-style-type: none"> <li>Employee satisfaction</li> <li>Retention of critical skills</li> </ul>
 <b>Natural capital</b> <ul style="list-style-type: none"> <li>Adopt renewable energy</li> <li>ESG strategy</li> </ul>	<ul style="list-style-type: none"> <li>Energy, carbon emission, water and waste reduction targets</li> <li>Resource management</li> </ul>	<ul style="list-style-type: none"> <li>Implemented solar photovoltaic solutions at five major retail centres at a cost of R46,0 million</li> <li>Eight groundwater harvesting plants</li> </ul>	<ul style="list-style-type: none"> <li>Improved energy efficiency</li> <li>Reduced operating costs</li> </ul>
 <b>Social and relationship capital</b> <ul style="list-style-type: none"> <li>Community development and investment</li> <li>ESG strategy</li> </ul>	<ul style="list-style-type: none"> <li>Invested in the following CSI projects: <ul style="list-style-type: none"> <li>Amanzi Ubuntu – borehole community initiative</li> <li>Keep them in class initiative</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>CSI projects benefit the following people: <ul style="list-style-type: none"> <li>Keep them in class – 18 schools, 18 950 packets of sanity towels distributed</li> <li>Amanzi Ubuntu – one completed borehole at a school in Siyabuswa</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Build sustainable relationships with community members surrounding our property assets</li> <li>Uphold our social licence to operate by maintaining relationships with local communities, suppliers, tenants, shoppers and government</li> </ul>

# STAKEHOLDER ENGAGEMENT

We use all stakeholder engagement channels to explain our operating environment and discuss current challenges and opportunities. We ensure that communication is accurate and transparent, and our goal is to provide our stakeholders with relevant information that will enable them to accurately assess our performance and prospects.

## ENHANCING STAKEHOLDER RELATIONSHIPS

Stakeholder	Shareholders and providers of financial capital	Tenants	Employees	Regulatory and industry authorities	Suppliers and service providers
How we engage	<ul style="list-style-type: none"><li>• Annual general meetings</li><li>• Heriot website</li><li>• Integrated reports</li><li>• Mainstream media</li><li>• One-on-one meetings</li><li>• Stock Exchange News Service ("SENS") announcements</li></ul>	<ul style="list-style-type: none"><li>• Lease renewals and negotiations</li><li>• One-on-one meetings</li><li>• Site visits</li><li>• Social media, brochures and leaflets</li><li>• Written, electronic and verbal communication</li></ul>	<ul style="list-style-type: none"><li>• Internal communications</li><li>• One-on-one interactions between employees and line managers</li><li>• Performance reviews</li></ul>	<ul style="list-style-type: none"><li>• Annual general meetings</li><li>• Heriot website</li><li>• Integrated reports</li><li>• Mainstream media</li><li>• One-on-one meetings</li><li>• Presentations</li><li>• SENS announcements</li></ul>	<ul style="list-style-type: none"><li>• Mainstream media</li><li>• Meetings</li><li>• Procurement policies</li><li>• Site visits</li><li>• Written, electronic and verbal communication</li></ul>
Key matters faced	<ul style="list-style-type: none"><li>• Debt covenants</li><li>• Debt levels</li><li>• Payment of distributions</li><li>• Property devaluation risk</li><li>• Property valuations</li><li>• Sustainable net asset value</li><li>• Tough trading conditions impacting cash flows</li></ul>	<ul style="list-style-type: none"><li>• Cost of occupation</li><li>• Lease terms</li><li>• Property management</li><li>• Service levels</li><li>• Utility supply interruptions</li><li>• Utility costs</li></ul>	<ul style="list-style-type: none"><li>• Job security</li><li>• Succession planning</li></ul>	<ul style="list-style-type: none"><li>• Compliance</li><li>• Increased utility and rates costs</li><li>• Service levels</li></ul>	<ul style="list-style-type: none"><li>• Contract management</li><li>• Information supply and response times</li><li>• Opportunities for small enterprises</li><li>• Project delays</li><li>• Repeat business from Heriot</li><li>• Service interruption</li><li>• Timely payments</li></ul>
Heriot's focus areas	Communicate Group strategy transparently to build trust and gain support to enable business growth and provide a return on their investment	Build and strengthen long-term relationships with tenants to enhance business sustainability, tenant retention and optimise tenant mix	Engage with our employees to understand their concerns and improve talent retention and job satisfaction	Compliance with mandatory laws and standards and to manage risk	Promotion of good relationships with our suppliers equals quality service on good terms



# RISK MANAGEMENT

The aim of risk management is to identify, assess, manage and monitor the existing and potential risks to Heriot’s operations and performance. The Board retains overall responsibility for risk management and for the definition of the Company’s overall risk strategy, risk appetite and risk tolerance.

## INVESTMENT PROPERTY PORTFOLIO

<b>1.</b>	<b>Inability to source suitable properties for acquisition</b>
Impact of risk	Mitigation strategy
Restricts ability to grow the portfolio	<ul style="list-style-type: none"><li>Regular interaction with key people in the industry</li></ul>

<b>2.</b>	<b>Damage to investment property</b>
Impact of risk	Mitigation strategies
Financial loss to the Company and reduced asset value	<ul style="list-style-type: none"><li>Comprehensive insurance policy based on the replacement cost of investment properties</li><li>Regular review of the insurance policy and insured values</li></ul>

<b>3.</b>	<b>Inadequate and/or irregular maintenance of investment property</b>
Impact of risk	Mitigation strategies
Devaluation and/or depreciation of properties due to lack of maintenance	<ul style="list-style-type: none"><li>Implementation of a programme for ongoing maintenance</li><li>Budget to allow for adequate and regular maintenance of investment property</li><li>Regular building inspections by portfolio managers, property managers, asset managers and executive management</li></ul>

## OPERATIONAL PERFORMANCE

<b>4.</b>	<b>Vacancies and rental default</b>
Impact of risk	Mitigation strategies
Rental growth, capital appreciation and return to shareholders may be adversely impacted by increased vacancies and tenant defaults	<ul style="list-style-type: none"><li>Strong focus on tenant relationships to ensure retention</li><li>Targeted leasing strategy</li><li>Early renewal negotiations</li><li>Effective credit control procedures for defaulting tenants</li></ul>

<b>5.</b>	<b>Significant increases in rates and taxes, other municipal costs and poor service delivery</b>
Impact of risk	Mitigation strategies
<ul style="list-style-type: none"><li>The increased cost of occupancy for tenants</li><li>A decrease in net operating income for the Group</li><li>A decrease in valuation of assets</li></ul>	<ul style="list-style-type: none"><li>Review municipal valuations and lodge objections when appropriate</li><li>Investment in solar and boreholes to reduce reliance on municipal power and services</li></ul>

<b>6.</b>	<b>Political riots and unrest</b>
Impact of risk	Mitigation strategies
Unemployment and poverty leads to increased violence, looting and the loss of innocent life, negatively impacting the communities we serve, our employees and the Group’s properties, particularly the retail malls	<ul style="list-style-type: none"><li>Dedicated managers at our retail properties regularly liaise with the on-site security function to assess risks</li><li>Appropriate insurance cover is in place</li><li>Emergency evacuation plans for tenants and employees</li></ul>

## FINANCING

<b>7.</b>	<b>Interest rate risk</b>
Impact of risk	Mitigation strategies
Increased cost of borrowings will reduce return to shareholders	<ul style="list-style-type: none"><li>Ongoing reviews of policy regarding fixed interest rates and hedging</li><li>Negotiations with banks to reduce the cost of borrowings</li></ul>

<b>8.</b>	<b>Availability of finance for property acquisitions and redevelopment</b>
Impact of risk	Mitigation strategies
Inability to grow the portfolio	<ul style="list-style-type: none"><li>Regular interactions with bankers to ensure the availability of debt for funding</li><li>Facilitate future access to equity through engagements with analysts and fund managers to create awareness of Heriot</li></ul>

<b>9.</b>	<b>Refinance risk</b>
Impact of risk	Mitigation strategies
Risk of refinancing when existing debt facilities near expiry	<ul style="list-style-type: none"><li>Maintain gearing at below 40% loan-to-value</li><li>Stagger debt expiry profile</li><li>Policy of being multi-banked</li></ul>

## GOVERNANCE

<b>10.</b>	<b>Non-compliance with regulations</b>
Impact of risk	Mitigation strategies
<ul style="list-style-type: none"><li>Suspension or termination of the Company’s listing</li><li>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</li></ul>	<ul style="list-style-type: none"><li>Designated advisor and Company Secretary monitor compliance</li><li>Member of the SA REIT Association</li><li>Management encouraged to consult with specialists to ensure compliance with all laws</li></ul>

SKILLS AND SYSTEMS

11.	Retention of key staff and adequate human resourcing
Impact of risk	Mitigation strategies
Loss of key employees or being under-resourced will impact the Group's ability to effectively achieve its objectives	<ul style="list-style-type: none"><li>Executive management constantly assesses the capacity of employees and closely monitors human resource requirements as the business grows</li><li>All employees are awarded short-term incentive bonuses</li><li>A long-term incentive scheme that aligns the interests of employees with the performance of the Company is being investigated</li></ul>

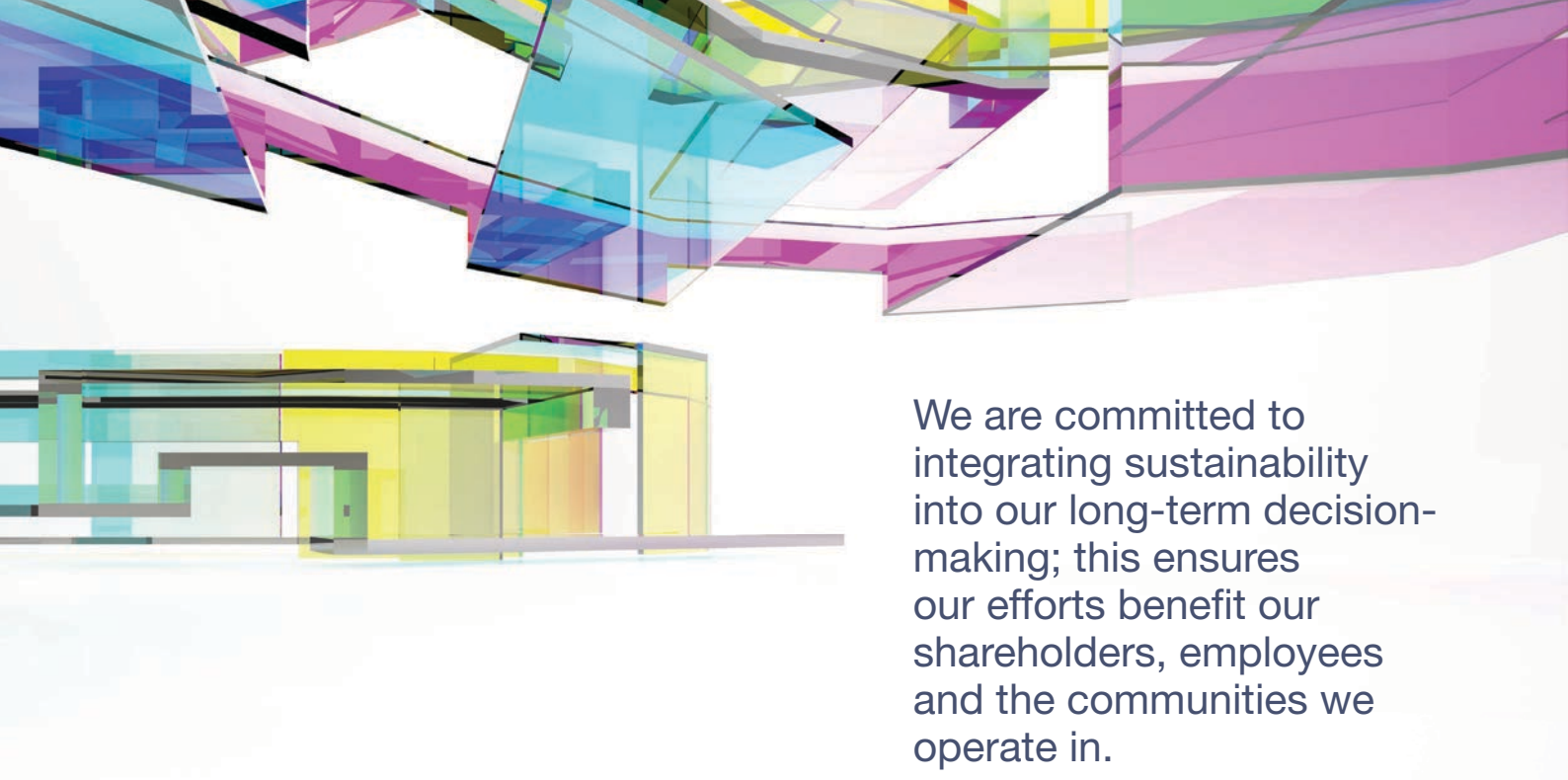
12.	Information technology ("IT") failure
Impact of risk	Mitigation strategy
<ul style="list-style-type: none"><li>Loss of revenue as a result of loss of data</li><li>Impact on the Company's reputation in the event that the data is not recovered promptly</li></ul>	<ul style="list-style-type: none"><li>Support of appropriately skilled IT resources and contractors</li></ul>

13.	Fraud and errors
Impact of risk	Mitigation strategy
Financial loss due to employee fraud going undetected	<ul style="list-style-type: none"><li>Regular review of internal controls</li></ul>

37	Environmental stewardship
39	Our employees
42	Our local communities

Sustainability review

We remain committed to integrating sustainability considerations into our strategy and operations.



We are committed to integrating sustainability into our long-term decision-making; this ensures our efforts benefit our shareholders, employees and the communities we operate in.

ESG – the term for environmental, social and governance – recognises that sustainability extends beyond just environmental issues. It is about creating sustained outcomes that drive value and fuel growth while strengthening our environment and societies.

While the ultimate responsibility of our sustainability strategy rests with the Board, the task of formulating the pertinent ESG policies and procedures has been entrusted to our executive management. The Board maintains the responsibility of regularly evaluating these policies and practices to gauge the financial impacts of their implementation or potential non-implementation.



Our approach to sustainability helps address four United Nations Sustainable Development Goals to which we can offer the greatest contribution:



# ENVIRONMENTAL STEWARDSHIP

We recognise that environmental stewardship plays a pivotal role in our success and that the management of finite resources is crucial for our sustainability. This entails an ongoing process of identifying areas for enhancement in energy management, water utilisation and waste management.

We actively seek economically viable strategies to minimise our environmental footprint. Our goal is to understand our ecological impact, cultivate awareness and foster responsible behaviours among our employees, tenants and suppliers. Our aim is to contribute positively to society by addressing pressing national challenges, and we have dedicated substantial resources for the roll-out of sustainability projects.

## REDUCING OUR CARBON FOOTPRINT

Our contribution to carbon emissions and the footprint we leave have motivated us to set an example of efficiency and action to the point that we eventually become carbon-neutral.

With coal being the primary source of energy for electrical production, South Africa has become the world's highest polluter of sulphur dioxide. Our electrical generation and consumption initiatives have started moving us away from limited sources of unclean fossil fuels to those that are cleaner and more sustainable.

## IMPROVED ENERGY EFFICIENCY

We monitor our energy consumption and the following initiatives are core to our energy efficiency programme:

- LEDs to minimise heat impact and reduce consumption;
- The installation of inverter technologies to reduce consumption;
- Solar photovoltaic adoption has helped Heriot:
  - reduced our reliance on the energy grid;
  - Improved our risk management during load shedding; and
  - lowered our carbon footprint; and
- We also ensure that each addition to or maintenance done on our properties is driven by being as building-passive as possible.

## Generating our own power

Plans are being implemented to generate power for the purpose of supplementing the national grid and making a meaningful contribution to end-load reduction measures. We have installed solar plants across our five major retail centres at a cost of R46,0 million. The plants are fully operational with a combined 5,78MWp of installed capacity. For the year under review, we have generated 4 293MWh from our solar plants and reduced carbon emissions by 3 042 metric tonnes. The environmental resources and social impact are equivalent to 12 million petrol kilometres or 741 metric tonnes of coal saved or the rehabilitation of 3 628 acres of forest lands.

We plan to increase the current solar roll-out rate by 50% to achieve a total portfolio of 12MWp in 2024. This will be in line with our goal to reduce our carbon footprint and reduce our carbon emissions by a further 2 000 metric tonnes per year.



WATER CONSUMPTION

Eight groundwater harvesting plants are in operation with further plants in the exploration phase. Our intention is to achieve water independence by harvesting and reclaiming water sources and relieving the pressure on the water grid. Our focus is to ensure that water sources remain clean and sustainable.

We have also undertaken numerous steps to improve the efficiency of water usage, including fitting aerators to taps, using more efficient air conditioning systems and using water-wise plants in our landscaping.

We further ensure that our community-based projects are geared towards sustainability, empowerment and upliftment with schools and communities receiving training and equipment to improve water independence for their agricultural endeavours.

WASTE MANAGEMENT

We are mindful that we need to be part of the solution and thus separate our waste into recyclable and non-recyclable waste; this ensures we can reduce our impact on landfill deposits and lighten our footprint on the environment.

We demarcate large yard areas for refuse, sorting into recyclable product groups. Community members process the product which they then sell to recycling plants.

To provide reduce waste management, we have:

- employed waste management companies to sort and recycle waste;
- recycling bins at all our properties; and
- promoted a paperless business environment and avoided printing whenever possible.

OUR EMPLOYEES

We appreciate the contributions our dedicated team members make towards our success.

We understand that our success is linked to the skills we attract and our high-performance culture. We prioritise team diversity and seek professional growth and development opportunities. This involves providing our employees with the resources, training, tools and leadership necessary to make informed decisions.

We strive to boost the development and retention of skills and competencies through regular training and development opportunities and create a better working experience for our employees.

MAINTAINING AN ETHICAL CULTURE

Our business activities and behaviour are firmly grounded in our corporate culture and values. To reinforce these values, our Group executives routinely engage in one-on-one meetings with every employee. These interactions serve to motivate our team members to consistently embody our values.

Our aspiration is to foster an environment where our employees are empowered to flourish and evolve within a secure and ethical workspace. Such an environment allows our team members to effectively translate our corporate values into actions that drive success.

We hold the conviction that our behaviour is paramount to establishing a strong ethical corporate culture.

We have a zero-tolerance approach towards unethical behaviour. Our employee policies, code of ethics and governance framework serve as guiding principles that steer and oversee corporate conduct. This proactive approach mitigates potential ethical risks, including instances of corruption, discrimination and human rights violations.

Should any instance of unethical behaviour come to light, our established disciplinary code serves as a clear roadmap for management to follow. This ensures that appropriate actions are taken to address issues effectively and uphold our commitment to ethical standards.

Employees sign our code of conduct, which symbolises their commitment to upholding ethical behaviour and reporting violations of our core values.

Heriot's core values are:

1

Integrity

2

Excellence

3

Tenant-centricity

4

Collaboration

5

Respect

6

Accountability

EMPLOYEE PROFILE

Our goal is to cultivate skills and encourage internal promotions whenever feasible, with the aim of establishing a fully equitable workforce that mirrors the diverse demographics of South Africa. Concurrently, we are committed to fostering transformation within the workplace to ensure inclusivity and fairness.

	Black male* %	Black female* %	White male %	White female %
Executive management	–	–	4	–
Senior management	–	5	4	4
Middle management	4	12	6	7
Skilled employees	5	16	–	3
Semi-skilled employees	14	6	–	–
Unskilled employees	5	5	–	–
Percentage of total	28	44	14	14

\* Black = African, Indian and Coloured.

	2023	2022
Percentage of permanent employees (%)	100	100
Average age of employees (years)	41	42
Percentage of employees who are deemed historically disadvantaged (%)	72	65

EMPLOYEE TURNOVER

Our yearly employee turnover remains low.

While we acknowledge that this stability is vital for seamless business operations, we also appreciate fresh perspectives that new appointments bring to Heriot.

	2023	2022
New appointments	15	2
Dismissals	–	–
Resignations	(12)	–
Retirements	–	–
Total employee turnover	3	2

TRAINING AND DEVELOPMENT

Over the past year, 40% of our employees participated in training initiatives.

Our employees are pivotal to our success. We dedicate both time and financial resources to skills development and employee training, ensuring our continued adaptability to future demands. We identify training requirements through regular employee reviews, while assessing our collective skill set annually. This evaluation helps pinpoint areas for growth, with allocated budgets to address these needs.

Our focus on employee training is driven by the intention to enhance our skill pool, contribute to effective succession planning and reinforce our commitment to employment equity endeavours.

	2023	2022
Total number of employees trained	23	18

HEALTH, WELLNESS AND SAFETY

It is critical for us to ensure the well-being, health and safety of our employees. This approach not only fosters employee retention but also elevates the overall experience for tenants and other stakeholders.

We have established protocols to effectively handle occupational incidents and adhere to legislative guidelines when processing compensation claims.

No injuries were reported in 2023 underscoring our commitment to maintaining a safe and secure work environment for our valued team members.

# OUR LOCAL COMMUNITIES

## CORPORATE SOCIAL INVESTMENT

We remain resolute in fostering impactful social transformation by cultivating enduring connections with our local communities. We are dedicated to enhancing the well-being of individuals, communities and organisations neighbouring our properties through diverse programmes and projects.

## CSI PROJECTS

Our approach to CSI is driven by demand rather than supply. Nevertheless, we consider our business priorities when choosing CSI initiatives, ensuring they align with our overarching objectives, which encompass:

- advocating for education;
- enhancing health and well-being;
- reducing environmental impact;
- promoting gender equality; and
- fostering enterprise development.

Not only do we assist communities by creating local employment opportunities, but during the 2023 financial year, the following initiatives were undertaken:

### Borehole community initiative

#### Amanzi Ubuntu – Borehole Community Initiative

Currently, it is estimated that over 55% of South Africans do not have access to clean running water. Heriot has commenced with a borehole initiative aimed at providing safe water to the local communities in which we operate.

By partnering with key stakeholders in each area, we are able to secure safe, central and key locations within each of these communities for the placement of boreholes.

We have identified three sites for the roll-out of the first phase of the “Amanzi Ubuntu” initiative being Burgersfort, Siyabuswa and Phokeng, and we are pleased to advise that the first borehole is up and running at Thembeke Primary School in Siyabuswa. The other two are in progress and are expected to be launched soon.

### Sanitary towel drive

#### Keep them in class

According to UNICEF, one in ten girls in school in Africa miss school or drop out due to their period and often have to resort to using unsafe absorbent materials such as rags, newspaper or toilet paper. In South Africa, seven million girls do not have access to, or cannot afford, sanitary products and as a result, an estimated 30% of South African girls do not attend school during their periods.

As in previous years, Heriot continues to support a sanitary towel drive and during the year, 18 950 packets of sanitary towels were distributed to 18 schools within the Burgersfort, Phokeng, Siyabuswa and Tembisa communities. This focused approach enables us to assist the young women in our communities and aims to alleviate absenteeism and enhance educational opportunities, allowing these women to pursue their education with dignity.



44	Governance framework
45	Directorate
51	Report of the Remuneration and Nomination Committee
53	Report of the Investment Committee
54	Report of the Social and Ethics Committee
55	King IV™

To ensure value creation and preservation for stakeholders, the Board, its subcommittees and the executive team work in unison. This synchronisation is critical for swift decision-making and maintaining equitable work distribution.

Corporate governance



# GOVERNANCE FRAMEWORK

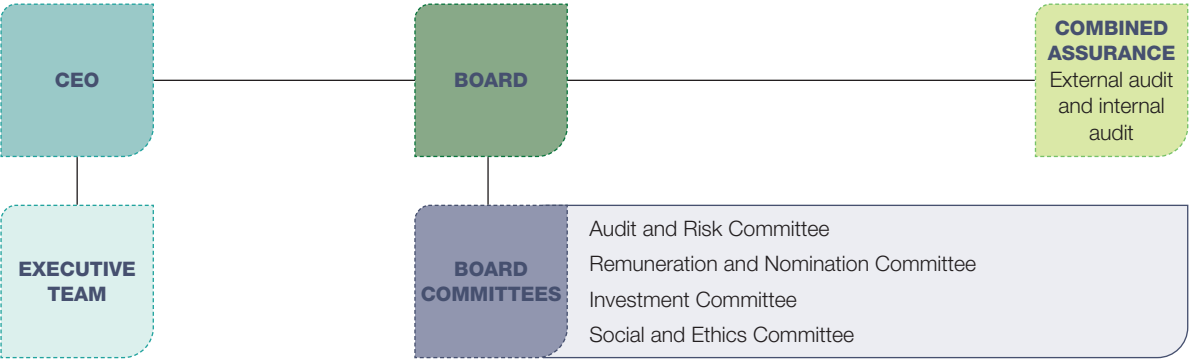
## OUR APPROACH TO GOVERNANCE

The Board is committed to upholding the principles of ethical corporate governance and continually strives to align the governance framework with global best practices. Through responsible business conduct, it emphasises ethical behaviour, transparency, integrity, strategy and responsible citizenship.

The Board enforces its commitment to ethical conduct while holding executive management accountable for executing strategic implementation, cultivating an ethical culture and ensuring effective risk management.

To ensure value creation and preservation for stakeholders, the Board, its subcommittees and the executive team work in unison. This synchronisation is critical for swift decision-making and maintaining equitable work distribution.

The Group's ultimate control resides with the Board, while the executive team is entrusted with effectively executing the Group's strategy. This delegation extends to specific members of senior management who handle our property management function.



To ensure the fulfilment of its responsibilities, the Board has established a charter outlining its practices and procedures. This charter meticulously defines the roles, functions, duties and authority of the Board members, namely the Chairman, Executive Directors and Non-executive Directors.

It covers aspects like corporate governance, procedures for Board meetings and protocols for activities such as nominating, appointing, inducting, training and assessing Directors.

The roles of the Chairman and the CEO are separate, maintaining a balanced distribution of power and authority, where no individual wields unchecked decision-making authority or dominates Board discussions and choices.

The Chairman takes on the role of guiding the Board's discussions, facilitating independent input and supervising its smooth functioning. While the CEO's reporting line is directed to the Board, both the CEO and CFO retain their responsibilities for formulating, revising, executing and upholding Heriot's strategic course and overseeing its operations.

# DIRECTORATE

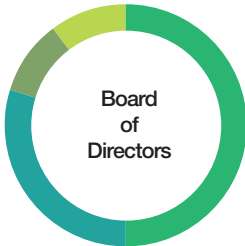
## BOARD OF DIRECTORS

Heriot operates with a unitary Board composed of eight Directors: three Executive Directors and five Non-executive Directors, of whom four are deemed independent.

	Number
Number of Board members	7
Board members who are non-executive	5
Board members who are deemed independent	3
Board members who are deemed historically disadvantaged South Africans	1
Board members who are women	1

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

<b>Non-executive Directors</b>	Steven Bernard Herring ( <i>Chairman</i> ) Janys Ann Finn
<b>Independent Non-executive Directors</b>	Selwyn Joel Blieden ( <i>Lead Independent Director</i> ) Robin Lockhart-Ross Nelson Abram Ngale
<b>Executive Directors</b>	Richard Lawrence Herring ( <i>Chief Executive Officer</i> ) Daniel Snoyman ( <i>Chief Financial Officer</i> )



- 71,4% Board members who are non-executive
- 42,8% Board members who are deemed independent
- 14,3% Board members who are deemed historically disadvantaged South Africans
- 14,3% Board members who are women

## Board skills

We are satisfied that the Board's composition reflects the appropriate mix of skills, knowledge, qualifications, diversity, experience and independence.

	Steven Bernard Herring	Richard Lawrence Herring	Daniel Snoyman	Janys Ann Finn	Selwyn Joel Blieden	Nelson Abram Ngale	Robin Lockhart-Ross
Accounting and auditing	✓	✓	✓	✓	✓	✓	✓
Governance and compliance	✓	✓	✓	✓	✓	✓	✓
Leadership	✓	✓	✓	✓	✓	✓	✓
People management and remuneration	✓	✓	✓	✓	✓	✓	✓
Property management	✓	✓	✓	✓	✓	✓	✓
Risk management	✓	✓	✓	✓	✓	✓	✓
Strategy	✓	✓	✓	✓	✓	✓	✓
Sustainability/ESG	✓	✓	✓	✓	✓	✓	✓

BOARD CVs

EXECUTIVE DIRECTORS



**Richard Lawrence Herring (51)**  
Chief Executive Officer  
CA(SA)

**Richard** is a qualified chartered accountant who served articles at Fisher Hoffman Sithole. In 2003, he joined Heriot Properties Proprietary Limited ("Heriot Properties") where he worked closely with the team to build the Heriot portfolio. Today, Richard is the CEO of Heriot and his responsibilities include the management, growth and development of the portfolio.

Committee member **IC** **SEC**



**Daniel Snoyman (36)**  
Chief Financial Officer  
CA(SA), BCom, Higher diploma (Accounting)

**Daniel** obtained a business accounting science degree and a higher diploma in accounting at Witwatersrand University in 2010 and completed his articles at PKF (now BDO). He qualified as a chartered accountant in 2013. Daniel joined Heriot as financial manager on 1 November 2017. Prior to joining Heriot, he was involved in the financial and operational management of a non-listed portfolio of more than 300 residential properties that were redeveloped in the Johannesburg CBD.

Committee member **IC** **SEC**

NON-EXECUTIVE DIRECTORS



**Steven Bernard Herring (52)**  
Non-executive Chairman  
Undergraduate degree in Marketing (University of Johannesburg), Master 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; more than 20 malls were developed and 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 **IC** **RNC**



**Janys Ann Finn (59)**  
Non-executive Director  
BCom, BAcc, CA(SA)

After serving articles at Grant Thornton, Janys became the first female partner at the practice in 1993. She served as a partner for 13 years, servicing a large, diversified portfolio of clients, including several listed companies and clients in the property sector, before leaving for commerce in 2005. Since then, Janys has been CFO of MetBoard Property Fund and Redefine Properties Limited ("Redefine"), where she was instrumentally involved in the merger of Madison, ApexHi and Redefine, and Rebosis Property Fund Limited. She joined the Heriot Group in 2014 and was appointed as a Director of Heriot on 18 April 2017.

From 1 December 2022, Janys stepped down as an Executive Director of the Company. However, she remains a Non-executive Director of Heriot.

Committee member **IC**

The Non-executive Directors contribute a wide range of relevant industry skills, knowledge and experience to the Board's decision-making processes.



**Robin Lockhart-Ross (65)**  
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 CIB: Commercial Property Finance. During that period, Robin was the Chairman of the divisional manco, enterprise-wide Risk Committee and the Investment Committee. He was also a member of the CIB Executive Committee, enterprise-wide Risk Committee and Divisional Credit Committee. Rob is currently an Independent Non-executive Director of Fortress Real Investments Limited and Trematon Capital Investments Limited. He is also an Independent External Committee member of the RMB Property Finance Credit Committee.

Committee member **ARC** **IC** **RNC**



**Selwyn Joel Blieden (51)**  
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 **ARC** **IC** **RNC**



**Nelson Abram Ngale (61)**  
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 in China.

Committee member **ARC** **SEC**

Committees

- ARC** Audit and Risk Committee
- IC** Investment Committee
- RNC** Remuneration and Nomination Committee
- SEC** Social and Ethics Committee

FUNCTIONS AND RESPONSIBILITIES OF THE BOARD

As outlined in the Board charter, the Board is responsible for:

- adopting strategic plans and overseeing their execution by the executive team;
- ensuring compliance with relevant laws, regulations and codes of business conduct;
- establishing a governance framework for the delegation of authority;
- managing risk to support Heriot’s strategic goals;
- monitoring operational performance against predetermined budgets and targets;
- offering strategic guidance to Heriot, appointing the CEO and ensuring a succession plan is in place;
- ensuring that Heriot’s affairs are conducted responsibly and professionally;
- promoting strong corporate governance;
- reviewing and approving financial objectives, plans and actions, including significant capital allocations and expenditures;
- reviewing processes and procedures to sustain the efficacy of Heriot’s internal control systems, thereby upholding high levels of decision-making capability and reporting accuracy;
- safeguarding the integrity of the Group’s investor relations; and
- upholding the Board’s obligations to all stakeholders.

BOARD APPOINTMENT PROCESS

In line with the JSE Listings Requirements, all the Directors (with the exception of Robin Lockhart-Ross who received an exemption) participated in a formal Director induction programme facilitated by the Institute of Directors.

Following a suggestion from the Remuneration and Nomination Committee, Board appointments undergo a comprehensive evaluation by the Board, consistent with the Group’s appointment policy. These appointments are conducted through a structured and transparent process.

Directors who join during the year are required to have their appointments ratified by shareholders at the subsequent general or annual general meeting subsequent to their appointment.

BOARD CHANGES

As stipulated by Heriot’s memorandum of incorporation, a third of Non-executive and Executive Directors, and all Directors appointed by the Board within the year, must step down at the annual general meeting. In both instances, Directors who are eligible have the option to stand for re-election.

Trevor Cohen retired from the board at the Annual General Meeting held on 7 December 2022. Robin Lockhart-Ross was appointed to the remuneration and nomination committee and Nelson Ngale was appointed to the audit and risk committee on the same date.

Janys Finn stepped down as CFO from 30 November 2022 but remains a non-executive director of the company. Daniel Snoyman was appointed as CFO with effect 1 December 2022.

DEALING IN SECURITIES

Heriot strictly enforces a policy that restricts securities transactions by Directors, their associates and all employees. This policy applies during specific closed periods, such as the lead-up to the announcement of interim and year end financial results, periods under cautionary announcements and any other times deemed necessary by the Board.

The Company Secretary oversees the management of this policy. The Chairman grants the clearance for Directors to trade during open periods, and in his absence or when potential conflicts arise, the Lead Independent Director assumes this responsibility.

Directors are obligated to disclose their shareholdings, additional directorships and potential conflicts of interest to the Chairman and Company Secretary annually. These declarations are maintained in the Company’s records and reconfirmed at every Board and committee meeting.

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, Directors are required to recuse themselves from any discussion and decision in which they have a financial interest.

BOARD COMMITTEES

The Board has delegated certain responsibilities to the following committees:

Audit and Risk Committee	Remuneration and Nomination Committee	Investment Committee	Social and Ethics Committee
Selwyn Joel Blieden* Nelson Abram Ngale Robin Lockhart-Ross	Selwyn Joel Blieden* Steven Bernard Herring Robin Lockhart-Ross	Steven Bernard Herring* Janys Ann Finn Richard Lawrence Herring Robin Lockhart-Ross Daniel Snoyman	Nelson Abram Ngale* Richard Lawrence Herring Daniel Snoyman

\* *Chairman*

While overall responsibility and accountability remain 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 committee meetings are made available to all Directors. The Board has unrestricted access to the external auditor, professional advisors, the executives and the employees 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.

Meeting attendance

Quarterly Board meetings are held, supplemented by additional meetings as needed. The Company Secretary is present at all committee and Board meetings. Executive Directors and meeting invitees do not receive attendance fees for their participation in meetings. External advisors and non-committee Directors are invited to committee meetings if required by the respective committee.

The attendance register for each Board and committee meeting for the period ended 30 June 2023 is set out below.

	Board	Audit and Risk Committee	Remuneration and Nomination Committee	Social and Ethics Committee
Steven Bernard Herring ( <i>Chairman</i> )	4/4		2/2**	
Richard Lawrence Herring	4/4	3/3*	2/2*	1/1
Daniel Snoyman	4/4	3/3*		1/1
Janys Ann Finn	4/4	3/3*		
Selwyn Joel Blieden	4/4	3/3**	2/2^	
Robin Lockhart-Ross	4/4	3/3	2/2	
Nelson Abram Ngale	4/4	2/3		1/1^
Trevor John Cohen***	1/1	1/1		

\* *Attended by invitation.*

\*\* *Chairman.*

\*\*\* *Trevor Cohen resigned on 7 December 2022.*



Audit and Risk Committee

The Board designates members from its ranks to join the Audit and Risk Committee. These appointments are contingent on shareholder approval at the Company's annual general meeting.

The Audit and Risk Committee convenes at least three times per year, with additional meetings convened when necessary. An annually reviewed charter, endorsed by the Board, governs the Audit and Risk Committee's operations.

The committee members possess unrestricted access to all essential information, documents and clarifications needed for fulfilling their obligations. They also have access to the external auditor as required.

The responsibilities of the committee include:

- assisting the Board in discharging its duties relating to the safeguarding of assets and the operation of adequate systems and internal control processes;
- 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;
- ensuring compliance with good corporate governance best practices;
- ensuring that an effective plan for risk management is implemented;
- overseeing the audit process and the relationship with the external auditor;
- overseeing the preparation of accurate financial reports and statements in compliance with all applicable legal requirements and accounting standards; and
- reviewing the finance function of the Company on an annual basis.

The Board is satisfied that the members of the Audit and Risk Committee have the skills and experience necessary to contribute meaningfully to the committee's deliberations.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee's scope of responsibility, as stipulated in its terms of reference, outlines structured and transparent protocols for Board appointments, Directors' remuneration and executives' compensation.

In accordance with the guidelines of King IV™, the Remuneration and Nomination Committee is led by an Independent Non-executive Director as its Chairman. In terms of the Board-approved terms of reference, the Remuneration and Nomination Committee's responsibilities include:

Remuneration matters

- Approving the service agreements for the CEO and the Executive Directors, termination payments and compensation commitments;
- Determining and agreeing on the framework for the remuneration of the CEO and CFO and other members of the executive management team;
- Making 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;
- Overseeing major changes in employee benefit structures throughout the Company;

- Producing a remuneration report for inclusion in the Company's integrated report;
- Reviewing appropriate market information regarding remuneration-related matters; and
- Determining the total remuneration package of the CEO and each Executive Director, within the terms of the agreed framework, including, where appropriate, bonuses, incentive payments and share options and/or conditional rights.

Nomination matters

- Assessing the Board's training and development needs;
- Conducting periodic evaluations of the effectiveness and performance of the Board as a whole and considering the individual contribution of each Non-executive Director;
- Considering and making recommendations, on a periodic basis (and at least annually), 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 skills, experience, race and gender;
- Developing a succession plan in respect of the CEO and Executive Directors;
- Ensuring that a robust induction programme is in place for new appointments to the Board;
- Identifying, evaluating and recommending appointees to the Board and Board committees; and
- Reviewing the performance of the CEO and Executive Directors.

Investment Committee

Every member of the Investment Committee boasts substantial expertise in the property market. This committee aids the Board in making investment choices aligned with Heriot's strategy, particularly concerning property acquisitions and disposals.

The committee adheres to a Board-approved charter, which guides its operations. Its endeavours are concentrated 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

The Social and Ethics Committee's primary functions include reviewing and endorsing policies and strategies concerning the management of social, ethical and transformational aspects within the Group.

The Social and Ethics Committee is a legally mandated committee established under Section 72 of the Companies Act and Regulation 43 of the Companies Regulations, 2011. The roles and responsibilities of the committee are outlined in official terms of reference, sanctioned by both the committee and the Board.

The committee's endeavours are focused on:

- championing equal opportunity and diversity;
- elevating Heriot's brand and reputation as a socially responsible business; and
- ensuring that CSI initiatives yield mutual advantages for both Heriot and the beneficiaries.

# REPORT OF THE REMUNERATION AND NOMINATION COMMITTEE

I am pleased to introduce Heriot's remuneration report for 2023, which describes the Group's formalised remuneration policy.

In adherence with the principles of King IV™, our report has been organised into three distinct sections:

- Background statement;
- Overview of the remuneration policy; and
- Remuneration implementation report detailing the effective remuneration disbursed during the reporting period, aligned with the stipulations of the remuneration policy.

BACKGROUND STATEMENT

A proficient and motivated workforce is crucial for achieving our strategic objectives. Our remuneration policy is designed to attract and retain top-tier talent across all levels. We are thus dedicated to maintaining fair, responsible and transparent remuneration practices across the business.

The Remuneration and Nomination Committee oversees remuneration decisions and specifically establishes performance criteria for evaluating executive management's role fulfilment. As per the committee's mandate, it strives to ensure that management is rewarded justly and responsibly for their contributions and alignment with the Company's strategy.

The remuneration policy and implementation report will undergo non-binding advisory shareholder voting during the forthcoming annual general meeting on 6 December 2023. If 25% or more of shareholders vote against these advisory measures, the Board commits to actively engage with dissenting shareholders to address their valid 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:

- 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

Members of the executive team are remunerated in terms of their employment contracts. These allow for a guaranteed annual package but no additional benefits or allowances.

Our remuneration policy is to target market-related pay in respect of guaranteed pay, benchmarking against companies that are comparable in terms of size, market sector and complexity. Annual increases are awarded on 1 January and are determined with reference to inflation, individual performance and affordability.

Short-term incentive

Each year, the committee recommends a bonus pool for all employees. This size of the bonus pool is intended to increase as distributions to shareholders increase thus ensuring that short-term incentive rewards to employees are linked to Company's performance and are affordable to the Company. Members of executive management are allocated annual cash bonuses from this pool in accordance with their individual performance.

As reported last year, the committee had undertaken a project to assess performance and measurement methodologies for employees. This work included the creation of models and analyses of existing approaches taken by other companies. The decision was taken to await completion of strategic growth initiatives (such as the Safari acquisition) before implementing any agreed system and approach. The committee intends now to revisit its work and, in the coming year, implement systems and processes that will include both long-term and short-term incentive

Long-term incentive

At present the only long-term incentive programme for employees of the Company is the long-term share purchase scheme instituted at listing in 2017. No allocations in terms of this scheme have been made since listing. The committee intends, however, to put in place a long-term incentive system as part of broader incentive systems mentioned in the preceding paragraph.

Previous reports of this committee would indicate that we have been considering discontinuing this scheme on the basis that it was not considered suitable for achieving alignment between shareholders and management. However, recent discussions with employees indicate that there is revived interest from several key employees for the Company to offer this scheme, and circumstances now allow for greater alignment between employees and shareholders

REMUNERATION IMPLEMENTATION REPORT

The CEO operates without a service contract but is subject to a two-month notice period. The CFO has a one-month notice period as per his existing contract.

No restraint of trade clauses or similar contractual obligations are applied to executive management, thus no separation payments would be applicable.

Detailed remuneration information for Executive Directors, in line with the remuneration policy, can be found in note 27 to the annual financial statements included in this integrated report.

Non-executive Directors receive an annual fee acknowledging their ongoing fiduciary duties. Additional fees are paid to Directors serving on committees for their participation in relevant committee meetings.

Non-executive Directors have been remunerated in terms of a special resolution passed by shareholders at the annual general meeting held on 7 December 2022, setting remuneration for a period of two years from that date. The maximum amounts were set as follows:

	Actual 2023 R	Proposed 2024 R
Annual fee		
Chairman of the Board	322 500	322 500
Member of the Board	215 000	215 000
Fee per committee meeting		
Audit and Risk Committee member (including the Chairman)	26 875	26 875
Social and Ethics Committee member (including the Chairman)	26 875	26 875
Remuneration and Nomination Committee member (including the Chairman)	26 875	26 875

Selwyn Blieden  
Remuneration and Nomination Committee Chairman

31 October 2023

REPORT OF THE INVESTMENT COMMITTEE

The Investment Committee, chaired by Heriot's founder and Chairman Steven Herring, includes Executive Directors and Non-executive Directors, Robin Lockhart-Ross and Janys Finn.

Its primary responsibility is to evaluate all investment prospects and present recommendations to the Board for consideration. The committee convenes when decisions related to property asset acquisition, disposal or significant redevelopment are necessary.

This committee also oversees the Group's investment strategy, targeting opportunities that enhance value within South Africa's industrial and retail property sectors. The emphasis is on convenience and small regional retail centres in peri-urban and rural areas. The overarching goal is to establish a diverse and stable portfolio of property assets, generating secure income streams and fostering capital growth.

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

- ensure that acquisitions are income-enhancing and within Heriot's target market, giving careful consideration to acquisitions that are dilutionary;
- identify properties for disposal that no longer fit within the Group's investment criteria, geographically or otherwise; and
- approve transactions that are within its limits of authority without reference to the 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 the aggregate, totalling not more than 10% of the portfolio value;
- Raise funding for acquisitions provided that Heriot's gearing levels do not exceed 45% 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; and
- Acquisition of shares in Safari requires Board approval.

While no formal meetings of the committee were held during the year, the committee considered a number of strategic transactions and approved the following:

- The acquisition of a further 61,9 million shares in Safari for a total consideration of 346,8 and R5,60 per share, increasing Heriot's holding to 47,1%;
- The disposal of 1,5 million shares to the majority shareholder, Heriot Investments, for a total consideration of R8,8 million or R5,60 per share reducing Heriot's shareholding to 46,5% as at the date of this report;
- The disposal of Hagley for R40,3 million to the majority shareholder, Heriot Investments, with the option to buy Hagley back at cost within the next five years; and
- Capital expenditure of R178,4 million on various projects including the 8 141m² extension of Siyabuswa Mall, the conversion of Shoprite Sea Point to the new Checkers spec, additional investment into rooftop solar and costs incurred towards the development of the Ackermans distribution centre on the Hagley land.

Steven Herring  
Investment Committee Chairman

31 October 2023

# REPORT OF THE SOCIAL AND ETHICS COMMITTEE

The Social and Ethics Committee has been constituted to assist the Board with social and ethics-related matters, as provided for in the Companies Act and the regulations thereto, as well as the recommendations of King IV™ and the JSE Listings Requirements.

The committee is governed by 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:

- 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;
- monitoring the Company's efforts and activities relating to ethical leadership and good corporate citizenship;
- 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;
- reporting to the shareholders at the Company's annual general meeting on the matters within its mandate; and
- drawing matters within its mandate to the attention of the Board as occasion requires.

### MEMBERSHIP

The committee comprises Non-executive Director, Nelson Ngale (Chairman), the CEO, Richard Herring and the CFO, Daniel Snoyman.

### ACTIVITIES

A primary focus of the committee is to improve the quality of life of the people living within the communities surrounding our properties. In pursuit of this objective, we are dedicated to ensuring that we create local employment opportunities by awarding contracts and jobs for servicing and maintaining our properties to Broad-based Black Economic Empowerment ("B-BBEE") entities.

Further, our retail portfolio assists local communities by providing them with easy access to a superior shopping experience that caters to their daily needs.

The committee is also responsible for Heriot's social investment programmes that are designed to benefit the local communities.

Read page 42 to learn more about our social initiatives and community projects.

The Company has recently commenced with the "Amanzi Ubuntu" project, a borehole initiative that is aimed at providing the communities surrounding our retail centres with access to safe water. The Burgersfort, Siyabuswa and Phokeng communities will be the first to benefit from this initiative.

### B-BBEE SCORECARD

Heriot is dedicated to achieving B-BBEE compliance, with a strong focus on employment equity, supportive procurement practices, enterprise creation and equity ownership within the Group. However, the Company currently remains non-compliant.

The Board recognises the importance of adhering to the Broad-based Black Economic Empowerment Act No 53 of 2003 and relevant codes of practice to ensure competitiveness, long-term sustainability and profitability in the industry. To achieve compliance, the Board has charged the committee with developing a transformation policy aligned with property sector codes and the Group's objectives. These objectives encompass equal opportunity employment, diversity management, recruitment, rewards, leadership development and training.

While the primary goal is to enhance the Group's B-BBEE scorecard rating, the committee is also mindful of cost-effectiveness in relation to the Group's operations. The pursuit of improved scores is balanced with the strategic growth of the asset portfolio, broadening shareholder participation and fostering diversity in full-time employee recruitment.

### GOING FORWARD

Heriot remains steadfast in its commitment to empower, develop and uplift disadvantaged communities. The Company is actively engaged in assessing the needs of communities surrounding our shopping centres, aiming to implement sustainable initiatives that enhance the quality of life over the short to medium term.

In the upcoming year, Heriot will persist in its support of non-profit organisations by providing them with space within its retail malls. This collaborative effort enables these organisations to engage with and benefit the communities Heriot serves.

Nelson Ngale  
Social and Ethics Committee Chairman

31 October 2023

# 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 the Alternative Exchange are only required to comply with the disclosure requirements set out in part 5.3 comprising principles 6 to 10. However, the Board has 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> The Board has approved a code of ethics (code) that ensures that the conduct of both the Board and management reflects Heriot's obligation to behave as a responsible corporate citizen in compliance with the Companies Act and King IV™.  Measures are in place to ensure that all Board members have a sufficient working knowledge of the Company, its industry, its operating context and all key laws, rules, codes and standards.
Principle 2: Organisation values, ethics and culture	
<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> The Board has adopted a code of ethics which clearly sets out the business practices for the Company to follow as well as the standards of behaviour for all persons within the Company.  The Board ensures that compliance with this code is integrated into the strategy and operations, conduct and the way Heriot treats its stakeholders.
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> The Board has undertaken a full review of the Company's position with regard to being a responsible corporate citizen. This includes a review of the Company's remuneration policies and work environment.  Heriot is a socially responsible company that is committed to sustainable transformation in line with the objectives of the Broad-based Black Economic Empowerment Act and the National Development Plan. The Company promotes a non-racial and culturally diverse philosophy.  Heriot is committed to becoming a B-BBEE-compliant company through employment equity promotion in the workplace, procurement practices that support developing businesses and suppliers, enterprise creation and equity ownership in the Group. Although Heriot mainly contracts with B-BBEE-compliant suppliers, the Company remains non-compliant.

### GOVERNANCE OUTCOME: PERFORMANCE AND VALUE CREATION

Principle 4: Strategy, implementation and performance	
<b>King IV™ principle</b> The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are inseparable elements of the value creation process	<b>Application</b> 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.



Governance outcome: Performance and value creation continued

Principle 5: Reports and disclosure	
<b>King IV™ principle</b> 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	<b>Application</b> The Board ensures that Heriot's integrated report effectively communicates its long-term strategy and the results therefrom in a transparent and truthful manner. It further ensures that the report provides a balanced view of Heriot's financial and non-financial performance, having the highest regard to integrity and ethical standards. In compliance with legal requirements and required disclosures, Heriot distributes its Interim and Integrated Annual Reports both online and in printed form.

GOVERNANCE OUTCOME: ADEQUATE AND EFFECTIVE CONTROL

Principle 6: Role of the governing body	
<b>King IV™ principle</b> The governing body should serve as the focal point and custodian of corporate governance in the organisation	<b>Application</b> 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.
Principle 7: Composition of the governing body	
<b>King IV™ principle</b> 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	<b>Application</b> The Company recognises the value of diversity in the composition of its Board and acknowledges that diversity of skills, race and gender strengthens the Company's ability to effectively carry out its duties and add value to the Group. In line with its diversity policy, all new Board appointments are considered in the context of achieving diversity while keeping the operational requirements of the Group in mind.  In determining the number of directors needed, the Board considers factors such as the appropriate mix of business and industry experience and decides on the optimum combination of executive, non-executive and independent non-executive members.  The Board presently is diverse and experienced with a wealth of knowledge in the property industry. The Board comprises two executive members, three Independent non-executive members and two non-executive members, one of whom is the non-executive Chairperson. All Board members are suitably qualified to act in the best interests of stakeholders.  The Board has unrestricted access to the executive directors, external auditor, professional advisors and company secretary. Furthermore, the Board has unrestricted access to all information, records and documents of the Company.
Principle 8: Committees of the governing body	
<b>King IV™ principle</b> The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement and assist with the balance of power and the effective discharge of its duties	<b>Application</b> 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.

Governance outcome: Adequate and effective control continued

Principle 9: Performance evaluations	
<b>King IV™ principle</b> 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	<b>Application</b> The Board establishes the functions, responsibilities and performance criteria of the Board, the Directors and the Board subcommittees. While a formal annual self-evaluation is yet to be introduced for the Board and its subcommittees, the Board satisfied itself that it and its subcommittees operated effectively during the year under review. In addition, the Chairman regularly engages with the Executive and Non-executive Directors, addressing any matters of concern regarding performance.
Principle 10: Delegation to management	
<b>King IV™ principle</b> 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	<b>Application</b> The 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	
<b>King IV™ principle</b> The governing body should govern risk in a way that supports the organisation in setting and achieving strategic objectives	<b>Application</b> 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 provides reports to the Audit and Risk Committee.  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	
<b>King IV™ principle</b> The governing body should govern technology and information in a way that supports the organisation in setting and achieving its strategic objectives	<b>Application</b> 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.

Governance outcome: Adequate and effective control continued

Principle 13: Compliance governance	
<b>King IV™ principle</b> 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	<b>Application</b> The Board ensures compliance with all relevant South African legislation, the JSE Listings Requirements and King IV™ principles.
Principle 14: Remuneration governance	
<b>King IV™ principle</b> 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	<b>Application</b> 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 outlined in the report of the Remuneration and Nomination Committee on pages 51 and 52 of this report.
Principle 15: Assurance	
<b>King IV™ principle</b> 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	<b>Application</b> The Board has approved terms of reference that mandate 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	
<b>King IV™ principle</b> 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	<b>Application</b> 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 in the Act, and has operated in conformity with the memorandum of incorporation during the year under review.

60	Directors' responsibility and approval
61	Chief Executive Officer's and Chief Financial Officer's responsibility statement
62	Group Company Secretary's certificate
63	Report of the Audit and Risk Committee
64	Directors' report
67	Independent auditor's report
70	Statements of financial position
71	Statements of profit or loss and other comprehensive income
72	Statements of cash flows
73	Statements of changes in equity
74	Notes to the financial statements
132	Annexure 1: Additional disclosures in terms of SA REIT Best Practice Recommendations

Financial statements

Despite the current operating environment, Heriot delivered outstanding operational performance, with net property operating income (“NOI”) growth of 13,8% and distributable earnings growth 4,2%.

# DIRECTORS’ RESPONSIBILITY AND APPROVAL

The Directors are required by the Companies Act No 71 of 2008 (“Companies Act”) 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 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 Limited (“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 financial statements are prepared in accordance with IFRS, the SA financial reporting requirements’ per Section 8.60 of the JSE Listings requirements, 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 sets 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 endeavour to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Group and Company’s Audit and Risk Committee plays an integral role in risk management as well as overseeing the Group and Company’s integrated reporting. The Code of Corporate Practices and Conduct has been integrated into the Group and Company’s strategies and operations.

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

The Directors have reviewed the Group and Company’s cash flow forecast for the year to 30 June 2024 and, based on this review and the current financial position, they are satisfied that the Group and Company have access to adequate resources to continue in operational existence for the foreseeable future.

The external auditor was given unrestricted access to all financial records and related data, including minutes of meetings of the Board of Directors and the committees of the Board. The consolidated and separate financial statements have been examined by the Group and Company’s external auditor and their report is presented on pages 67 to 69.

The consolidated and separate annual financial statements set out on pages 70 to 131, which have been prepared on the going concern basis, were approved by the Board of Directors on 31 October 2023 and were signed on its behalf by:

**Steven Herring**  
*Chairman*

**Daniel Snoyman**  
*Chief Financial Officer*

# CHIEF EXECUTIVE OFFICER’S AND CHIEF FINANCIAL OFFICER’S RESPONSIBILITY STATEMENT

In line with paragraph 3.84(k) of the JSE Listings Requirements, the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) hereby confirm that:

- the financial statements set out on pages 70 to 131 fairly present in all material respects the financial position, financial performance and cash flows of the issuer in terms of IFRS;
- to the best of our knowledge and belief, no facts have been omitted or untrue statements made that would make the financial statements false or misleading;
- internal financial controls have been put in place to ensure that material information relating to the issuer and its consolidated subsidiaries has been provided to effectively prepare the financial statements of the issuer;
- the internal financial controls are adequate and effective and can be relied upon in compiling the financial statements, having fulfilled our role and function as Executive Directors with primary responsibility for the implementation and execution of controls;
- where we are not satisfied, we have disclosed to the Audit and Risk Committee and the auditor any deficiencies in design and operational effectiveness of the internal financial controls, and have taken steps to remedy the deficiencies; and
- we are not aware of any fraud involving Directors.

**Richard Herring**  
*Chief Executive Officer*

**Daniel Snoyman**  
*Chief Financial Officer*

31 October 2023

# GROUP COMPANY SECRETARY’S CERTIFICATE

## Declaration by the Company Secretary in respect of Section 88(2)(e) of the Companies Act

In accordance with the provisions of Section 88(2)(e) of the Companies Act, I certify that for the year ended 30 June 2023, 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*

31 October 2023



# 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, Nelson Ngala and Robin Lockhart-Ross. The CEO, CFO 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 2023 are set out on page 49.

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 performing 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, for the year under review:

- BDO South Africa Incorporated and Vianca Pretorius, the designated auditor and individual audit partner, are independent of the Company and further confirm that the suitability for their appointment is in accordance with paragraph 3.84(g)(iii) of the JSE Listings Requirements;
- The CFO, Daniel Snoyman, 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 to assist 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.

A key area of focus of the committee was the review of the key audit matters raised by the auditors noted on page 67.

The committee has reviewed the annual financial statements for the year ended 30 June 2023 and is of the view that they comply with IFRS in all material respects. Further, the committee reviewed this integrated report and is satisfied that the information is reliable, consistent, fairly represented, prepared in accordance with appropriate reporting standards and conforms to the requirements of the King IV Report on Corporate Governance for South Africa, 2016™, and the JSE Listings Requirements and has recommended the annual financial statements for the year ended 30 June 2023 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, 6 December 2023.

**Selwyn Blieden**

*Audit and Risk Committee Chairman*

31 October 2023

# DIRECTORS’ REPORT

The Directors have pleasure in submitting their report on the annual financial statements of Heriot REIT Limited (“Heriot”, the “Company” or the “Group”) and its subsidiaries for the year ended 30 June 2023.

## NATURE OF BUSINESS

Heriot is a property holding and investment Company that is listed in the “Diversified REITs” sector on the Alternative Exchange of the JSE Limited (“JSE”). The Group is primarily invested in retail and industrial properties situated in areas with high growth potential. At the reporting date, the property portfolio was valued at R9,258 billion. The Group’s primary objective is 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. Further, Heriot continues to pursue greenfield development opportunities that will create perpetual growth in distributions.

Heriot further manages a portfolio of retail assets located in Zambia and the Democratic Republic of the Congo.

## ACCOUNTING POLICIES

The financial statements of the Company and Group have been prepared in conformity with International Financial Reporting Standards (“IFRS”), the South African financial reporting requirements per Section 8.60 of the JSE Listing Requirements and the Companies Act. The accounting policies have been applied consistently with those of the previous year except for the new policies adopted in the current reporting period noted on page 80 (note 1.19).

## INVESTMENT IN SAFARI AND ACCOUNTING TREATMENT

Through the general offer made by Heriot to acquire shares in Safari Investments RSA Limited (“Safari”) at an offer price of R5,60 per share, Heriot increased its shareholding in Safari to 26,8%. Together with additional parcels of Safari shares acquired subsequent to the expiry of the general offer in December 2022, Heriot further increased its holding to 39,1% at 31 March 2023. On that date, Safari’s firm intention to repurchase and cancel the 53,0 million Southern Palace shares was unanimously approved by shareholders, and this, together with Heriots’ disposal of 1,5 million shares back to Heriot’s holding company, Heriot Investments, resulted in Heriot’s effective shareholding in Safari increasing to 46,5% at the reporting date.

Based on an analysis of Safari’s historical shareholder voting patterns, together with Heriot’s strategic shareholding in Safari and the fact that Steven Herring is chairman of both Heriot and Safari, Heriot was deemed to control Safari from 31 March 2023.

On this basis, Heriot equity accounted Safari’s 12-month results from 1 April 2022 to 31 March 2023, the date prior to which Heriot gained effective control and consolidated Safari’s statement of financial position at 31 March 2023 into its results at 30 June 2023. Heriot has not included Safari’s results for the three months ended 30 June 2023 (“three-month results”) in its results for the reporting period. Instead, Heriot applied the lag accounting principle as Safari’s three-month results were assessed as immaterial to the Group. Post Safari’s year end, Safari has changed its year end from March to June and will therefore align with Heriot’s year end from 30 June 2024.

## 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.

Distributable earnings of the Group for the year ended 30 June 2023 (the “period” or “reporting period”) of R271,552 million, or 106,33 cents per share, are 4,2% ahead of distributable earnings of 102,05 cents per share for the previous financial year. Distribution per share remains Heriot’s measure of performance.

Net operating income (“NOI”) grew by 13,8%. While NOI from the specialised portfolio has grown through normal rental escalations of 6,0% to 8,0%, the performance of industrial portfolio has significantly improved from reduced vacancies together with rental increases on lease renewals. The retail portfolio has achieved significant growth predominantly related to the Siyabuswa phase 3 extension. The residential portfolio has benefited from enhanced rentals achieved through short-term lettings.

However, the office sector is still suffering the effects of the COVID-19 pandemic with challenges in filling vacancies and reduced rentals on lease renewals.

While the Group achieved double-digit growth from its property operations, distributions were negatively impacted by the 350bps increase in the repo rate during the reporting period as Heriot’s debt entirely comprised floating facilities for the period under review. As a result, the average cost of borrowings increased by 2,39%, from 6,29% in the comparable period, to 8,68%, reducing distributable earnings growth to 4,2%.

Effective cash management and strong cash flows support the payment of 100% of distributable earnings as a dividend and therefore, after accounting for the interim dividend of 52,04 cents paid on 11 April 2023, the Company is declaring a final dividend of 54,29 cents per share.

Heriot’s net asset value per share increased by 22,0% from R12,06 at 30 June 2022 to R14,72 at 30 June 2023. This increase is mainly attributable to the consolidation of Safari into Heriot’s statement of financial position at 30 June 2023, which resulted in an unrealised, non-distributable bargain gain of R464,3 million for the reporting period. The growth is further attributable to an increase of R289,3 million in the valuation of Heriot’s property portfolio, which is supported by the positive rental escalations achieved on renewals and re-lets across the portfolio during the period.

## ASSETS AND LIABILITIES HELD FOR SALE

During the reporting period, Heriot entered into an agreement to develop a 35 000m<sup>2</sup> distribution centre for Ackermans on the property owned by Hagley, a Heriot subsidiary. In order to mitigate any development risks associated with the project, Heriot disposed of Hagley, at cost, to Heriot Investments. However, Heriot has the option to repurchase up to 100% of Hagley’s equity at cost, which option expires on 30 June 2028. As this option is exercisable at the discretion of Heriot, we are still deemed to have control over Hagley and therefore, Hagley has been consolidated into Heriot at the reporting date and the property has been reflected as a non-current asset held for sale.

Further, investment property owned by Safari valued at R184,9 million has been classified as held for sale at year end.

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 Real Estate Investment Trust (“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 and in respect of the year ended 30 June 2023, the following dividends were declared by the Company:

- Dividend number 10 – an interim dividend of 52,03687 cents per share for the six months ended 31 December 2022 was declared on 14 March 2023. The total dividend of R132,900 million was paid to shareholders on 11 April 2023; and
- Dividend number 11 – a final dividend of 54,28910 cents per share for the six months ended 30 June 2023 was declared to shareholders on 27 September 2023. The total dividend of R138,652 million was paid to shareholders on 25 October 2023.

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 measure of trading performance. Heriot’s distributable income has been calculated as follows:

	2023 R’000	2022 R’000
Contractual rental income and recoveries, excluding straight-line rental income	643 022	580 203
Property expenses	(202 032)	(192 618)
Other income	12 467	14 625
Administrative expenses and corporate costs	(46 206)	(47 593)
Per statement of comprehensive income	(46 710)	(48 097)
Adjust for: Depreciation charged on owner-occupied property	504	504
Net finance costs	(191 954)	(119 374)
Finance income	10 747	12 733
Finance charges	(202 701)	(132 107)
Income tax	(3 383)	(1 494)
Net dividend distributed from equity-accounted entities	66 015	35 436
Dividend distributed from equity-accounted entities	66 015	36 277
Losses from associate	–	(841)
Non-controlling interest	(6 377)	(8 553)
	271 552	260 632
Number of shares in issue at the reporting date*	255 395 858	255 395 858
Distribution per share (cents)	106,33	102,05

\* 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		Non-executive	
RL Herring	Chief Executive Officer	SJ Blieden	Lead Independent Non-executive Director
D Snoyman	Chief Financial Officer	SB Herring	Chairman
	Appointed 1 December 2023	R Lockhart-Ross	Independent
		NA Ngale	Independent
		JA Finn	
		TJ Cohen	Resigned 7 December 2022

DIRECTORS’ INTERESTS IN SHARES

As at 30 June 2022 and at 30 June 2023, the Directors held the following direct and indirect interests in shares in the Company:

	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	–	–	–	–	–	–
D Snoyman	–	–	–	–	–	–
SB Herring	–	222 790 183	–	–	222 790 183	86,9
R Lockhart-Ross	–	–	–	–	–	–
N Ngale	–	–	–	–	–	–
	2 800 000	234 167 522	–	–	236 967 522	92,4

\* RL Herring has pledged his direct holding of 2 800 000 shares as security for an amount owed to the Company in terms of the employee share scheme. At 30 June 2023, the loans amounted to R29,007 million (2022: R29,092 million).

There has been no change to the Directors’ interests in shares between the year ended 30 June 2023 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 Directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

GOING CONCERN

The Directors are of the opinion that the Company and Group have adequate financial resources to continue operations for the foreseeable future and, accordingly, the annual financial statements have been prepared on a going concern basis. This opinion is based on:

- the strong current and projected cash flows of the Group;
- the Group comfortably meeting debt covenant ratios;
- the Group’s positive solvency position reflected by the net asset value of R14,72 per share at the reporting date; and
- the Group having access to sufficient facilities to meet its foreseeable cash requirements for operational activities and capital commitments.
- the Group’s ability to refinance facilities as and when they fall due, evidenced by the raising of new facilities and successful renewal of facilities during the year. While the Group’s current liabilities exceed current assets because of maturing facilities at the reporting date, refinancing discussions with existing and new lenders for these facilities are at an advanced stage. Further, the Group has R365,3 million surplus cash invested in revolver facilities at year end that can be used to meet financial obligations at the reporting date.

AUDITOR

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

COMPANY SECRETARY

CIS Company Secretaries Proprietary Limited (“CIS”) is the Company Secretary. During the year, CIS was represented by Mosa Matlosa, who is an associate member of Chartered Secretaries South Africa.

As required by the JSE Listings Requirements, the Board has satisfied itself that the Company Secretary has the 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:

Business address	Rosebank Towers 15 Biermann Avenue Rosebank Johannesburg 2196
Postal address	Private Bag X9000 Saxonwold 2132

PREPARER

The financial statements were compiled by Daniel Snoyman 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 and its subsidiaries (the group and company) set out on pages 70 to 131, which comprise the consolidated and separate statements of financial position as at 30 June 2023, and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Heriot REIT Limited and its subsidiaries as at 30 June 2023, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the group and company in accordance with the Independent Regulatory Board for Auditors’ *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined that there are no key audit matters in respect of the separate financial statements to communicate in our report.

Key audit matter	How our audit addressed the key audit matter
<p><b>Valuation of investment property – Group – Note 2</b></p> <p>Significant judgements and estimates are required by directors in determining the fair value of investment property.</p> <p>The portfolio is valued annually by an external independent valuator – Quadrant Proprietary Limited. The valuations were based on a discounted cash flow model.</p> <p>Note 2 sets out the most significant inputs into valuations, all of which are unobservable.</p> <p>We considered the valuation of investment property as a matter of most significance to our current year audit of the consolidated financial statements due to the significance of the balance, the significant judgements and estimates associated with determining fair value and the sensitivity of the valuations to changes in assumptions.</p>	<p>Our procedures included, amongst others, the following:</p> <ul style="list-style-type: none"><li>• We assessed the design and implementation of key controls in the valuation process as performed by the directors;</li><li>• We evaluated the competence, capabilities, and objectivity of the external valuer. This included verifying professional qualifications, membership and standing with professional bodies. We also obtained a signed declaration of his independence with regard to his dealings with management and performance of the valuations;</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 discount rates and capitalisation rates. We further assessed that the valuation approach had been applied consistently;</li><li>• We performed procedures which involved developing independent expectations based on available market data, to identify property valuations for testing;</li><li>• For the properties that were selected for testing, we verified the mathematical accuracy of the models applied, evaluated the reasonability of the significant inputs, and assessed the reasonability of management forecast by comparing the forecast to the actual historical results. We also assessed reasonableness of the capitalisation, discount rates and growth rates used to the SAPOA and Rode’s reports;</li><li>• Making use of our internal corporate finance expertise, we assessed whether the valuation methodology was appropriate, and compared for reasonability the significant assumptions and judgements used by the valuator against historical inputs and market data, where available, and investigated unexpected movements on all properties; and</li><li>• We assessed the adequacy of the disclosure in the consolidated financial statements, including disclosure on significant inputs and sensitivity analysis, against the requirements of International Financial Reporting Standards.</li></ul>
<p><b>Safari Business combination – Group – Note 6 and 41</b></p> <p>Safari is a property investment company listed on the JSE as a REAL Estate Investment Trust that specialises in quality commercial investments, especially convenience and small regional shopping centres.</p> <p>At 30 June 2022, Heriot owned 19,2% of Safari, which investment was equity accounted on the basis that Heriot was deemed to have significant influence over Safari. Through a general offer to purchase shares in Safari at R5,60 per share, announced on 3 June 2022, Heriot increased its interest to 26,8% by 9 December 2022.</p> <p>At 31 March 2023, the company’s interest in Safari increased to an effective holding of 47,1% both through the acquisition of additional shares in Safari and as a result of the repurchase and cancellation by Safari of 53,0 million treasury shares.</p> <p>The accounting for the resulting Purchase Price Allocation (‘PPA’), fair value adjustment on the previously held equity interest, and gain on bargain purchase was a matter of most significance to the current year audit due to the following:</p> <ul style="list-style-type: none"><li>• The significant judgement and estimates involved in the model applied by management to determine the fair value of the identifiable assets and liabilities in terms of IFRS 3;</li><li>• The significance of the gain on bargain purchase recognised as a consequence to the Statement of Comprehensive income.</li></ul>	<p>Our procedures included, amongst others the following:</p> <ul style="list-style-type: none"><li>• We made use of our internal IFRS expertise to evaluate the accounting treatment on group level in terms of IFRS 3 and assessing the effective date of control;</li><li>• We made use of our internal valuation expertise to assess the valuation of the model of the PPA reflecting the fair value of the assets and liabilities, and the resulting gain on bargain purchase;</li><li>• We issued instructions addressing significant audit areas in general, as well as specific information required to be reported on by the component audit team. Instructions were issued for 31 March 2023 which is the effective date of the transaction, to confirm extent of work performed on significant risk areas;</li><li>• We held various planning, execution and completion meetings and discussions with the component audit team throughout the engagement;</li><li>• We inspected relevant component audit team working papers and documents to assess the adequacy of their work performed as at 31 March 2023. The following procedures were performed at the component auditor level for the Investment property that was utilised for purposes of the PPA as at 31 March 2023:<ul style="list-style-type: none"><li>– Assessed the design and tested the implementation of the relevant controls over the valuation process;</li><li>– Evaluated the capabilities, competency, and objectivity of the external independent valuator. This included confirming professional qualifications and registrations and making an assessment of independence and appropriateness of the valuator used;</li><li>– Through discussions with the external independent valuator, obtained an understanding of the external valuator’s work performed , which included the valuation methodology adopted, the significant assumptions used, and critical judgement areas applied, such as discount and capitalization rates;</li><li>– Making use of internal valuation expertise, and assessing market information obtained from external valuation experts, assessed whether the valuation methodology was appropriate, and compared the significant assumptions and judgements used by the external independent valuator to historical inputs and market data, where available, to assess its reasonability, and investigated unexpected movements. Based on the work performed no aspects were noted that required further consideration; and</li><li>– For all properties, the mathematical accuracy of the models applied were verified, the reasonability of the inputs was evaluated, the reasonability of management’s forecast were assessed for reasonability by agreeing a selection of lease agreements and expense contracts, and growth rates were assessed for reasonableness against market related data.</li></ul></li><li>• We assessed the adequacy of the disclosure in the consolidated financial statements, against the requirements of International Financial Reporting Standards.</li></ul>



OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the document titled “Heriot REIT Limited Integrated Report 2023 for the year ended 30 June”, which includes the Directors’ Report, the Audit Committee’s Report and the Company Secretary’s Certificate as required by the Companies Act of South Africa. The other information does not include the consolidated or the separate financial statements and our auditor’s reports 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, 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 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 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 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 six years.

BDO South Africa Inc.

BDO South Africa Incorporated  
Registered Auditors

Vianca Pretorius  
Director  
Registered Auditor

31 October 2023

Wanderers Office Park  
52 Corlett Drive  
Illovo, 2196

# STATEMENTS OF FINANCIAL POSITION

as at 30 June 2023

		Group		Company	
	Note	2023 R'000	2022 R'000	2023 R'000	2022 R'000
<b>ASSETS</b>					
<b>Non-current assets</b>		<b>9 097 870</b>	<b>5 478 808</b>	<b>2 399 762</b>	<b>2 379 468</b>
Investment property at fair value	2	8 891 700	4 955 600	–	–
Investment property	2	8 686 507	4 839 145	–	–
Straight-line rental income accrual	2	205 193	116 455	–	–
Property under development	3	91 345	129 263	–	–
Property, plant and equipment	4	31 251	26 277	–	–
Investment in subsidiaries	5	–	–	2 365 646	2 345 249
Investment in associates and joint ventures	6	4 135	333 449	–	–
Derivative financial instrument	7	1 017	–	–	–
Right-of-use assets	8	3 997	–	–	–
Financial assets	9	74 425	34 219	34 116	34 219
<b>Current assets</b>		<b>124 427</b>	<b>217 821</b>	<b>129 788</b>	<b>146 002</b>
Trade and other receivables	10	47 248	45 283	–	–
Dividends receivable from subsidiaries	11	–	–	71 194	35 449
Financial assets	9	–	49 573	46 397	–
Inventories	12	29 869	–	–	–
Taxation		–	6	–	–
Derivative financial instrument	7	1 615	–	–	–
Cash and cash equivalents	13	45 695	122 959	12 197	110 553
<b>Non-current assets held for sale</b>		<b>275 206</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total assets</b>		<b>9 497 503</b>	<b>5 696 629</b>	<b>2 529 550</b>	<b>2 525 470</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>		<b>5 304 475</b>	<b>3 321 484</b>	<b>2 515 974</b>	<b>2 495 227</b>
Shareholders' interest		3 953 591	3 279 093	2 515 974	2 495 227
Stated capital	15	2 548 624	2 548 624	2 557 648	2 557 648
Reserves		1 404 967	730 469	(41 674)	(62 421)
Non-controlling interests	16	1 350 884	42 391	–	–
<b>Liabilities</b>		<b>3 305 938</b>	<b>2 030 908</b>	<b>–</b>	<b>–</b>
Interest-bearing borrowings	17	3 225 122	1 968 816	–	–
Lease liabilities	8	4 531	–	–	–
Deferred taxation	18	76 285	62 092	–	–
<b>Current liabilities</b>		<b>816 049</b>	<b>344 237</b>	<b>13 576</b>	<b>30 243</b>
Interest-bearing borrowings	17	608 926	247 055	–	–
Other financial liabilities	19	40 309	–	13 518	30 243
Trade and other payables	20	154 641	87 251	58	–
Dividend payable to non-controlling shareholders	21	10 778	9 931	–	–
Lease liabilities	8	993	–	–	–
Taxation		402	–	–	–
<b>Non-current liabilities held for sale</b>		<b>71 041</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total equity and liabilities</b>		<b>9 497 503</b>	<b>5 696 629</b>	<b>2 529 550</b>	<b>2 525 470</b>

# STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2023

	Note	Group		Company	
		2023 R'000	2022 R'000	2023 R'000	2022 R'000
<b>Revenue</b>	22	<b>625 956</b>	<b>575 984</b>	<b>267 196</b>	<b>270 984</b>
Contractual rental income		501 933	454 463	–	–
Dividends received		–	–	267 196	270 984
Operating cost recoveries		141 089	125 740	–	–
Straight-line rental income accrual		(17 066)	(4 219)	–	–
Operating costs		(202 032)	(192 618)	–	–
<b>Net property income</b>		<b>423 924</b>	<b>383 366</b>	<b>267 196</b>	<b>270 984</b>
Equity-accounted profits (net of taxation)	6	78 122	114 894	–	–
Other income	23	12 467	14 625	–	–
Administration costs		(46 710)	(48 097)	(2 099)	(2 318)
Net impairment (losses)/reversals	24	–	(76 110)	14 897	7 401
<b>Profit from operations</b>	26	<b>467 803</b>	<b>388 678</b>	<b>279 994</b>	<b>276 067</b>
Finance charges	28	(202 701)	(132 107)	–	(20 016)
Finance income	29	10 747	12 733	6 455	11 982
<b>Profit before fair value adjustments and bargain purchase gain</b>		<b>275 849</b>	<b>269 304</b>	<b>286 449</b>	<b>268 033</b>
Fair value adjustments	30	241 599	344 775	–	–
Fair value adjustment on previously held equity interest	30	(47 707)	–	–	–
Investment properties and property under development	30	289 306	338 870	–	–
Derivative financial instrument	30	–	5 905	–	–
Bargain purchase gain	25	464 289	–	–	–
<b>Profit before taxation</b>		<b>981 737</b>	<b>614 079</b>	<b>286 449</b>	<b>268 033</b>
Taxation	31	(4 327)	146	–	–
<b>Total comprehensive income for the year</b>		<b>977 410</b>	<b>614 225</b>	<b>286 449</b>	<b>268 033</b>
<i>Attributable to:</i>					
Heriot shareholders		964 022	609 579		
Non-controlling shareholders		13 388	4 646		
		977 410	614 225		
Basic earnings and diluted earnings per share (cents)	32	377,46	238,68		

# STATEMENTS OF CASH FLOWS

for the year ended 30 June 2023

		Group		Company	
		2023 R'000	2022 R'000	2023 R'000	2022 R'000
Note					
Net cash flows generated from operating activities		263 362	248 521	256 499	260 578
Cash generated from/(used in) operations	33.2	453 579	365 435	(1 680)	(11 972)
Finance charges	28	(192 024)	(122 830)	–	(20 016)
Finance income	29	4 782	7 445	3 532	5 545
Dividends received	11	–	–	254 647	287 021
Taxation paid	33.5	(2 975)	(1 529)	–	–
Net cash (used in)/generated from investing activities		(437 391)	(368 244)	(117 355)	3 274
Acquisitions/improvements to investment property	33.6	(178 456)	(187 132)	–	–
Proceeds on disposal of investment property	33.7	–	83 250	–	–
Acquisition of property, plant and equipment	4	(6 325)	(762)	–	–
Acquisition of shares in associate	6	(293 061)	(287 643)	–	–
Acquisition of additional shares in subsidiary	5	–	–	(5 500)	–
Dividends received from associates	6	27 638	17 195	–	–
Loans to subsidiaries repaid	9	–	–	–	300
Loans advanced to subsidiaries	9	–	–	(114 881)	–
Loan repaid by related party	9	450	4 000	–	–
Loan advanced to related party	9	(1 577)	(126)	–	–
Cash acquired on business combination	41	10 914	–	–	–
Share scheme debt repaid	9	3 026	2 974	3 026	2 974
Net cash generated from/(used in) financing activities		97 517	132 382	(237 500)	(249 424)
Dividends paid to Heriot shareholders		(264 769)	(248 502)	(265 702)	(249 376)
Dividends paid to non-controlling shareholders	21	(6 252)	(6 699)	–	–
Acquisition of minority interest	16	(21 239)	–	–	–
Proceeds from disposal of shares in subsidiary	16	8 801	–	–	–
Subscription by minority for additional shares in subsidiary	16	5 500	–	–	–
Loans advanced by subsidiaries	19	–	–	28 202	–
Interest-bearing borrowings raised	33.8	800 332	467 900	–	(48)
Interest-bearing borrowings repaid	33.8	(424 856)	(80 317)	–	–
Net movement in cash and cash equivalents		(76 512)	12 659	(98 356)	14 428
Cash and cash equivalents at the beginning of the year		122 959	110 300	110 553	96 125
Cash and cash equivalents transferred to held for sale	14	(752)	–	–	–
Cash and cash equivalents at the end of the year	13	45 695	122 959	12 197	110 553

# STATEMENTS OF CHANGES IN EQUITY

as at 30 June 2023

	Group			
	Stated capital R'000	Reserves R'000	Non- controlling interests R'000	Total R'000
<b>Balance as at 30 June 2021</b>	2 548 624	369 392	46 549	2 964 565
For the year ended 30 June 2022				
Total comprehensive income for the year	–	609 579	4 646	614 225
Dividends	–	(248 502)	(8 804)	(257 306)
<b>Balance as at 30 June 2022</b>	2 548 624	730 469	42 391	3 321 484
Total comprehensive income for the year	–	964 022	13 388	977 410
Acquisition of minority interest (note 16)	–	(18 749)	(2 490)	(21 239)
Subscription by minority for additional shares in subsidiary (note 5)	–	–	5 500	5 500
Minority interest on acquisition of subsidiary (note 41)	–	–	1 284 387	1 284 387
Sale of shares in subsidiary (note 16)	–	(6 006)	14 807	8 801
Dividends	–	(264 769)	(7 099)	(271 868)
<b>Balance as at 30 June 2023</b>	2 548 624	1 404 967	1 350 884	5 304 475

Note1516

	Company		
	Stated capital R'000	Reserves R'000	Total R'000
<b>Balance as at 30 June 2021</b>	2 557 648	(81 078)	2 476 570
For the year ended 30 June 2022			
Total comprehensive income for the year	–	268 033	268 033
Dividends	–	(249 376)	(249 376)
<b>Balance as at 30 June 2022</b>	2 557 648	(62 421)	2 495 227
Total comprehensive income for the year	–	286 449	286 449
Dividends	–	(265 702)	(265 702)
<b>Balance as at 30 June 2023</b>	2 557 648	(41 674)	2 515 974

Note15



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2023

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

## ACCOUNTING POLICIES

### 1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Group and Company financial statements are set out below.

#### 1.1 Basis of preparation

The consolidated and separate 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 principal 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 1.19 to the 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 consolidated and separate financial statements are prepared in accordance with IFRS, the SA Financial Reporting Requirements, the requirements of the Companies Act and the JSE Listings Requirements.

#### 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 are 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 and sources of estimation uncertainty Significant judgements

##### Expected credit loss

##### *Impairment of trade receivables – Note 10*

An entity has a policy choice to apply either the simplified approach or the general approach for all trade and lease receivables that result from transactions that are within the scope of IFRS 16. The simplified approach does not require an entity to track the changes in credit risk, but instead, requires the entity to recognise a loss allowance based on lifetime expected credit losses at each reporting date from origination.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on an individual basis, these receivables are assessed net of the value added tax clawback and deposit or guarantee held.

Arrears aged 90 days and over are in most instances deemed to be irrecoverable and provided for. The expected loss rates are based on the Group's historical credit losses experienced over the period prior to the period end and are reassessed at each reporting date.

The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers, as well as potential changes in the debtors' risk profiles.

The Group has identified the gross domestic product, unemployment rate and the inflation rate as the key macroeconomic factors.

Trade receivables are written off when internal and initial legal collection processes have been exhausted and a judgement is made that the amount is likely not recoverable. Factors considered when monitoring credit risk and determining write-offs include the financial status of the debtor or counterparty, existence and quality of security, disputes and failure of the debtor to engage on payment plans or untraceable debtors. 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 of economic growth and forecast of retail sales, is used in making these assumptions.

#### Impairment of financial assets, dividends receivable from subsidiaries and other receivables – Notes 9 and 11

In terms of the provisions of IFRS 9 *Financial Instruments*, which requires a loss allowance to be recognised for all exposures to credit risk, the Group applies the general approach to measuring expected credit losses in respect of related party loans, share scheme loans, amounts receivable from subsidiaries and other receivables.

The loss allowance for these receivables is calculated based on 12-month expected losses i.e. default events that are possible within 12 months if there has not been any significant increase in credit risk since initial recognition.

In cases where the credit risk has increased significantly since initial recognition, the loss allowance is calculated based on lifetime expected credit losses.

The loss allowance is updated to either 12-month or lifetime expected credit losses at each reporting date based on changes in the credit risk since initial recognition. If the receivable is considered to have a low credit risk at the reporting date, then it is assumed that the credit risk has not increased significantly since initial recognition.

These receivables were analysed in terms of IFRS 9 by assessing the credit risk and expected default rate, taking into account mitigating factors including collateral held per receivable. Credit risk and the expected default rate are assessed based on a three-stage risk approach.

**Stage 1** – Financial assets that have a low credit risk at the reporting date; 12-month expected credit losses are recognised.

**Stage 2** – Assess if there has been a significant increase in credit risk and quality of the financial asset since initial recognition but it does not show objective evidence of impairment; lifetime expected credit losses are recognised.

**Stage 3** – If there is objective evidence of impairment at the reporting date, lifetime expected credit losses are recognised.

A loan is considered to be in default when there is evidence that the borrower is in significant financial difficulty such that it will have insufficient funds to repay the loan on demand.

The risk that the borrower will default on a demand loan depends on whether the subsidiary has sufficient cash or other liquid assets to repay the loan immediately (meaning that the risk of default is very low, possibly close to 0%) or it will not (meaning that the risk of default is very high, possibly close to 100%). A loan is considered to be credit-impaired if it meets the definition of a defaulted loan.

In determining the loss allowance and whether the credit risk has increased significantly, the following inputs and assumptions are used for related party and employee share scheme loans:

- Repayment dates of the loans;
- Growth projections of the properties owned by the borrowers and sureties provided on the loans. Further, the net equity position of a loan is assessed, along with the income-generating abilities of the properties, from day-to-day trading conditions and the surrounding areas;
- The employee share scheme loans are compared to the year end market price to assess recoverability; and
- An interest rate sensitivity analysis to stress test loan repayment tenures.

Other receivables mainly comprise deposits paid to Eskom and major municipalities. In determining the loss allowance and whether the credit risk has increased significantly, the following inputs and assumptions are used:

- Location of the municipality; and
- Financial status of the municipality and/or state-owned entity.

#### Write-off policy

The Group writes off a loan when there is information indicating that the counterparty is in severe financial difficulty and there is no prospect of recovery e.g. when the counterparty has been placed in liquidation or has entered into business rescue proceedings. Loans written off may still be subject to enforcement, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

#### Taxation

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

Heriot is a 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 – Note 2

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 – Note 7

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.

#### Impairments of investments in subsidiaries – Note 5

The Group tests whether assets have suffered any impairment in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on future cash flows discounted to their present value using appropriate rates. Estimates are based on interpretation of generally accepted industry-based market forecasts.

#### Inventory – Note 12

A percentage of Erf 71 Swakopmund (acquired on the acquisition of subsidiary (note 41) and the development thereon is recognised as inventory. The reason for the classification as inventory is that the development on this part of the property will be sold as residential units. The net realisable value of inventory is subject to estimation uncertainty and has been valued by an independent external valuer, who has considered all aspects of the inventory, including:

- the current economy;
- nature of the property;
- location;
- risk profile; and
- cost to sell inventory.

The inventory has been valued using the “direct comparable method” and is recognised at the lower of cost and net realisable value in terms of IAS 2 *Inventories*.

#### 1.4 Basis of consolidation

##### Subsidiaries

The consolidated financial statements incorporate the 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 includes 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 the associates 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 combinations

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.

On the basis that the fair value of the assets and liabilities assumed exceeds the consideration transferred to acquire the subsidiary, the bargain purchase gain is recognised in the statement of comprehensive income.

1.6 Investment property

1.6.1 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.

The vacant land has been valued on the "direct comparable basis".

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

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

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

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

Solar plant costs are capitalised and amortised over the useful life of the various components. The carrying values of the solar plants are included with investment properties and income generated through savings has been taken into account when calculating the fair value of investment properties.

1.6.2 Investment property under development

Investment property under development is stated at fair value less estimated costs to completion. Fair values are determined annually by external independent registered valuers on the open market value basis. The valuers apply either the discounted cash flow or the capitalisation of net income method to projected cash flows for the completed development to determine fair value. If the fair value of the developments cannot be reliably measured, the property will be carried at cost.

On completion, investment property under development is transferred to investment property.

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. 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 the 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 costs to their residual values over their estimated useful lives. The depreciation rates applicable are as follows:

Buildings	50 years
Computer equipment	3 years
Furniture, fittings and equipment	10 years
Motor vehicles	5 years

The useful lives and residual values of property, plant and equipment are assessed annually.

1.8 Financial instruments

The Group's financial instruments consist 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 or loss, transaction costs. Subsequent to initial recognition, these instruments are measured as set out below.

Cash and cash equivalents	Carried at amortised cost
Financial assets including related party loans, share scheme loans and amounts receivable from subsidiaries	Stated at amortised cost using the effective interest method less accumulated impairment losses
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	Stated at amortised cost using the effective interest method
Financial liabilities	Non-derivative financial liabilities not at fair value through profit or loss are recognised at amortised cost using the effective interest method
Derivative financial instruments	Derivative financial instruments are recognised at fair value through profit or loss

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 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 generally those receivables for which there have been no collections for more than 90 days. Trade receivables are derecognised when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. Any recoveries made are recognised in profit or loss.

For related party loans, employee share scheme loans and other receivables, 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 period. Where there has been a significant change in risk, the loss allowance is calculated based on lifetime expected credit losses.

1.9 Leases

All leases with tenants are classified as operating leases.

Operating leases – lessor

Operating lease income is recognised as income on a straight-line basis over the lease term.

The accrued operating lease income straight-lining adjustment is recognised as an asset in the statement of financial position. The current portion of the operating lease asset is the portion of the accrued operating lease income straight-lining adjustment that will reverse in the next financial year. Income from leases is disclosed within revenue in profit or loss.

Contingent rentals

Where applicable turnover rent is negotiated with tenants on an individual basis. Turnover rent is recognised when it is due in terms of the lease agreement.

Leases – Group as lessee

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

- Lease payments included in the measurement of the lease liability comprise the following:
- Fixed lease payments, including in-substance fixed payments, less any lease incentives;
  - Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
  - Lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option; and
  - Penalties for early termination of a lease, if the lease term reflects the exercise of an option to terminate the lease.



Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability (or right-of-use asset). The related payments are recognised as an expense in the period incurred and are included in operating expenses.

The lease liability is presented as a separate line item in the Group and Company statement of financial position.

The Group would remeasure the lease liability (and make a corresponding adjustment to the related right-of-use asset), even though this is not applicable in the current financial year, when:

- the term, in which case the lease liability, is remeasured by discounting the revised lease payments using a revised discount rate;
- there has been a change in the assessment of whether the Group will exercise a purchase, termination or extension option, in which case the lease liability, is remeasured by discounting the revised lease payments using a revised discount rate; and
- a lease contract has been modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised payments using a revised discount rate.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognised in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Right-of-use assets

Right-of-use assets are presented as a separate line item in the statement of financial position.

Right-of-use assets are measured at cost at the commencement date and comprise the following:

- The initial amount of the corresponding lease liability;
- Any lease payments made at or before the commencement date;
- Any initial direct costs incurred; and
- Less any lease incentives received.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset.

Depreciation starts at the commencement date of a lease. For right-of-use assets which are depreciated over their useful lives, if ownership does not transfer, the useful life is restricted to the lease term.

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate. Each part of a right-of-use asset with a cost that is significant in relation to the total cost of the asset is depreciated separately.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

1.10 Inventories

Inventories are measured at the lower of cost and net realisable value. Cost includes all expenses directly attributable to the development of apartments in Namibia by the subsidiary acquired (note 41).

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs.

The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories and recognised as an expense in the period in which the reversal occurs.

1.11 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. Operating cost recoveries are recognised over time.

Rentals 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.

1.12 Property operating expenses

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

1.13 Financing costs

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

1.14 Finance income

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

1.15 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 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.

1.16 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 discreet financial information is available. The segments are determined based on the Group’s management and internal reporting structure that is 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.

Segment results include revenue and expenses directly attributable to a segment and the relevant portion of Group revenue and expenses that can be allocated on a reasonable basis to a segment. Segmental assets comprise those assets that are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Unallocated items comprise mainly head office expenses and income tax assets and liabilities.

1.17 Investment property and disposal Groups held for sale

Non-current assets (and disposal Groups) are classified as held for sale and measured at the lower of their carrying amount or fair value less costs to sell when the value of the asset will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal Group) is available for immediate sale in its present condition.

The Group is committed to the sale of the non-current asset, with the likelihood of the transaction expected to qualify for recognition as a completed sale within one year from the date of classification. In the event a sale is not concluded within one year, management will assess whether the non-current asset still meets the criteria to be held for sale.

In its assessment, management will consider if the delay in sale is due to developments outside the entity’s control and if management still considers the sale as highly probable and the asset continues to be available for immediate sale in its current condition. Interest and other expenses attributable to the liabilities of an asset classified as held for sale are recognised in profit or loss. Refer to note 14.

1.18 Impairment of non-financial assets

At the end of each 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.

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.

1.19 New standards, interpretations and amendments  
1.19.1 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.

None of these changes had a material impact on the results of the Group.

**IAS 16 Property, Plant and Equipment**  
**Amendment to IAS 16: Proceeds before Intended Use**  
The amendment prohibits a company from deducting amounts received from selling items produced while the company is preparing the asset for its intended use from the cost of property, plant and equipment. Instead, a company will recognise such sales proceeds and any related costs in profit or loss.

The amendment is effective for annual periods beginning on or after 1 January 2022.

The adoption of this standard has been considered and is deemed immaterial to the results of the Group.

**IAS 37 Provisions, Contingent Liabilities and Contingent Assets**  
**Amendment to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract**  
The amendment to IAS 37 clarifies that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

The adoption of this standard has been considered and is deemed immaterial to the results of the Group.

The amendment is effective for annual periods beginning on or after 1 January 2022.

**IFRS 7 Financial Instruments: Disclosures**  
– Interest rate benchmark (IBOR) reforms phase 2  
**IFRS 9 Financial Instruments: Recognition and Measurement**  
– Interest rate benchmark reforms phase 2

**IFRS 16 Leases**  
– Interest rate benchmark reforms phase 2

The amendments to IFRS 7, IFRS 9 and IFRS 16 amend the requirements relating to changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities, hedge accounting and disclosures.

- Amendments to IFRS 7 require a company to make additional disclosures in its financial statements so that investors can better understand the effects of IBOR reform on that company.
- Amendments to IFRS 9 enable a company to apply a practical expedient to account for a change in the contractual cash flows that are required by IBOR reform by updating the effective interest rate to reflect any change arising from the reform. The amendments to IFRS 9 enable (and require) companies to continue hedge accounting in circumstances when changes to hedged items and hedging instruments arise as a result of change required by the IBOR reform, by requiring companies to amend their hedging relationships to reflect the designation of an alternative benchmark rate as the hedged risk; or changing the description of the hedged item, including the designated portion, or of the hedging instrument.
- Amendments to IFRS 16 enable a company to apply a practical expedient to account for a lease modification required by the IBOR reform.
- The Company will be impacted by the future replacement of JIBAR with a new benchmark rate, this impact is not expected to be material. Current indications are that the new benchmark rate will not become effective until 2024.

**Reference to the Conceptual Framework**  
**Amendment to IFRS 3**  
The amendment makes reference to the Conceptual Framework for Financial Reporting issued in 2018 rather than to the International Accounting Standards Committee's Framework for the Preparation and Presentation of Financial Statements. The amendment specifically points to the treatment of liabilities and contingent liabilities acquired as part of a business combination, and which are in the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*. It clarifies that the requirements of IAS 37 or IFRIC 21 should be applied to provisions, contingent liabilities or levies to determine if a present obligation exists at the acquisition date. The amendment further clarifies that the contingent asset of the acquiree's share not be recognised as part of the business combination. The amendment is effective for annual periods beginning on or after 1 January 2022.

**Annual Improvement to IFRS Standards 2018 – 2020**  
The amendment concerns fees in the “10 percent” test for derecognition of financial liabilities. Accordingly, in determining the relevant fees, only fees paid or received between the borrower and the lender are to be included.

**1.19.2 Standards and interpretations not yet effective**  
The Group and Company have elected not to early adopt the following standards during the current financial year as well as amendments to standards and interpretations which have been issued by the International Accounting Standards Board (“IASB”) and are effective in future reporting periods.

Standard/interpretation	Effective date – years beginning on or after
IAS 12 <i>Income Taxes</i> (Amendment – Deferred tax related to assets and liabilities arising from a single transaction)  The IASB issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.	On or after 1 January 2023 or later periods
IAS 1 <i>Presentation of Financial Statements</i> – Classification of liabilities as current or non-current and disclosure of accounting policies  The IASB issued the classification of liabilities as current or non-current (amendments to IAS 1) providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date.	On or after 1 January 2024 or later periods
IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> (Amendment – Definition of accounting estimates)  The IASB issued amendments to IAS 8 in which it introduces a new definition of “accounting estimates”. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors, as well as how entities use measurement techniques and inputs to develop accounting estimates.	On or after 1 January 2023 or later periods
Lease liability in a sale and leaseback  Seller-lessee in a sale and leaseback transaction shall determine “lease payments” or “revised lease payments” in a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee.	On or after 1 January 2024 or later periods
IAS 1 (Disclosure of accounting policies – Amendments to IAS 1 and IFRS Practice Statement 2)  IAS 1 was amended to require that only material accounting policy information shall be disclosed in the financial statements. The amendment will not result in changes to measurement or recognition of financial statement items, but management will undergo a review of the accounting policies to ensure that only material accounting policy information is disclosed.	On or after 1 January 2023 or later periods

The Group is currently evaluating the upcoming changes to the IASB standards, which have yet to take effect. It is anticipated that the impact of these new standards and amendments will be immaterial, and they are expected to be adopted in the year they become effective.

2. INVESTMENT PROPERTY

	Group	
	2023 R'000	2022 R'000
Investment property at valuation	8 891 700	4 955 600
Comprising:		
Investment property	8 686 507	4 839 145
Cost	7 919 216	4 360 085
Fair value surplus	767 291	479 060
Straight-line rental income accrual	205 193	116 455
	8 891 700	4 955 600
<b>Movement for the year</b>		
Investment properties at the beginning of the year	4 955 600	4 531 350
Investment property	5 024 184	4 595 715
Cumulative straight-line rental income adjustment	(68 584)	(64 365)
Acquisitions and improvements capitalised to investment property	163 589	283 286
Disposals	–	(183 000)
Straight-line rental income accrual for the year	(17 066)	(4 219)
Acquired on acquisition of subsidiary (note 41)	3 535 800	–
Capitalised borrowing costs	3 100	–
Transfer from property under development (note 3)	40 345	–
Transfer to non-current assets held for sale (note 14)	(86 702)	–
Change in fair value (note 30)	289 306	328 945
Solar installations	1 110	–
Capitalised	4 351	–
Amortised	(3 241)	–
Tenant installations	6 618	(762)
Capitalised	8 089	–
Amortised	(1 471)	(762)
<b>Balance at the end of the year</b>	<b>8 891 700</b>	<b>4 955 600</b>
<b>Movement in straight-line rental income accrual</b>		
Balance at the beginning of the year	116 455	130 059
Arising during the year	(17 066)	(4 219)
Acquired on acquisition of subsidiary (note 41)	105 804	–
Reversed in respect of investment property disposed of during the year	–	(9 385)
<b>Balance at the end of the year</b>	<b>205 193</b>	<b>116 455</b>
<b>Reconciliation to independent valuation</b>		
Investment property as per valuation	9 096 893	5 072 055
Straight-line rental income accrual	(205 193)	(116 455)
	8 891 700	4 955 600

For rental income and direct property expenses arising from investment property that generated rental income during the period, refer to note 42.

First mortgage bonds have been registered over investment property valued at R8,826 billion (2022: R4,686 billion) as security for interest-bearing borrowings of R3,834 billion (2022: R2,216 billion) (note 17).

2. INVESTMENT PROPERTY continued

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 Profession 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. The vacant land has been valued on the direct comparable sales basis.

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 %
<b>As at 30 June 2023</b>				
Industrial	9,49	7,49	10,03	14,87
Retail	8,99	7,54	8,51	14,48
Office	9,43	7,91	12,20	14,72
Specialised	8,50	5,01	4,79	12,50
Residential	9,00	6,56	6,71	15,25
Portfolio average	9,10	7,46	9,02	14,52
<b>As at 30 June 2022</b>				
Industrial	9,25	7,76	9,93	14,71
Retail	8,53	7,30	8,81	13,89
Office	9,70	5,43	10,38	15,12
Specialised	8,25	4,76	4,79	12,25
Residential	10,00	6,56	6,71	15,25
Portfolio average	8,93	7,24	9,08	14,29

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; and
- change in discount and capitalisation rates.

2. INVESTMENT PROPERTY continued

The table below illustrates the sensitivity to key observable inputs in determining the valuation of investment property for those properties that were valued utilising the discounted cash flow method.

	0,5% decrease in capitalisation rate R'000	0,5% increase in capitalisation rate R'000	0,5% decrease in discount rate R'000	0,5% increase in discount rate R'000
<b>2023</b>				
Industrial	60 696	(48 086)	41 506	(33 403)
Retail	307 143	(276 177)	258 838	(236 617)
Office	11 526	(10 377)	10 573	(10 187)
Specialised*	–	–	969	(940)
Residential	7 278	(6 539)	8 091	(7 773)
<b>Total</b>	<b>386 643</b>	<b>(341 179)</b>	<b>319 977</b>	<b>(288 920)</b>
<b>2022</b>				
Industrial	93 559	(83 875)	55 662	(53 418)
Retail	153 240	(136 661)	85 823	(82 323)
Office	23 492	(20 959)	9 656	(9 266)
Specialised*	–	–	942	(913)
Residential	8 417	(7 616)	5 388	(5 174)
<b>Total</b>	<b>278 708</b>	<b>(249 111)</b>	<b>157 471</b>	<b>(151 094)</b>

	5% increase in revenue R'000	5% decrease in revenue R'000	5% decrease in expenses R'000	5% increase in expenses R'000
<b>2023</b>				
Industrial	124 267	(124 267)	39 309	(39 309)
Retail	511 142	(511 142)	205 441	(205 441)
Office	27 076	(27 076)	9 175	(9 175)
Specialised*	5 714	(5 714)	410	(410)
Residential	14 970	(14 970)	2 738	(2 738)
<b>Total</b>	<b>683 169</b>	<b>(683 169)</b>	<b>257 073</b>	<b>(257 073)</b>
<b>2022</b>				
Industrial	119 976	(119 976)	38 620	(38 620)
Retail	199 519	(199 519)	73 075	(73 075)
Office	29 942	(29 942)	10 892	(10 892)
Specialised*	5 369	(5 369)	392	(392)
Residential	11 794	(11 794)	3 797	(3 797)
<b>Total</b>	<b>366 600</b>	<b>(366 600)</b>	<b>126 776</b>	<b>(126 776)</b>

\* There is no terminal value for these properties. This sector comprises paper plantations that are underpinned by long-term leases with Mondi. The valuation of these properties has been based on the value of the land together with the value of the timber on lease expiry, discounted to present value.

2. INVESTMENT PROPERTY continued

- If the valuer were to increase both the terminal capitalisation and discount rates by 0,50%, the total valuation would decrease by R341,179 million and R288,920 million respectively (2022: R249,111 million and R151,094 million).
- If the valuer were to decrease both the terminal capitalisation and discount rates by 0,50%, the total valuation would increase by R386,643 million and R319,977 million respectively (2022: R278,708 million and R157,471 million).
- If the valuer were to increase/(decrease) the revenue growth rates by 5%, the total valuation would increase/(decrease) by R683,169 million (2022: R366,600 million).
- If the valuer were to (increase)/decrease the expense growth rates by 5%, the total valuation would increase/(decrease) by R257,073 million (2022: R126,776 million).

3. PROPERTY UNDER DEVELOPMENT

	Group	
	2023 R'000	2022 R'000
Property under development at valuation less estimated costs to completion	91 345	129 263
<b>Movement in property under development for the year</b>		
Balance at the beginning of the year	129 263	109 242
Transfer to investment property	(40 345)	–
Development costs	2 427	9 846
Change in fair value	–	10 175
	91 345	129 263

Property under development comprises a property which is being redeveloped into student accommodation to enhance its value and to maximise returns on the well-located property.

The property has been bonded in favour of Nedbank Limited as security for interest-bearing borrowings (note 17).

The property was valued by Peter Parfitt of Quadrant Properties Proprietary Limited who is a registered valuer in terms of Section 19 of the Property Valuers Profession Act No 47 of 2000. The property was valued using the capitalised cash flows value less costs to complete the development method. The capitalised cash flow values are calculated by applying appropriate capitalisation rates to the future earnings potential of the property. The capitalisation rates are dependent on a number of factors such as location, the condition of the property, lease covenants and current market conditions. The property under development is reported at fair value less costs to complete the development.

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 and operating costs.

	Group		
	Capitalisation rates %	Rental growth rates %	Operating expense growth rates %
<b>Property under development as at 30 June 2023</b>	<b>9,75</b>	<b>7,03</b>	<b>5,80</b>
<b>Property under development as at 30 June 2022*</b>	9,53	(0,95)	1,73

\* In the peak of COVID-19 which affected both the 2021 and 2022 financial periods, revenue expectations decreased. This was largely off the back of diminished student housing requirements and demand during holiday periods. Inflation had reduced below 3% in 2021 which had carried forward into the 2022 financial period. Consequently, for 2022, expenses were kept flat due to lower projected occupancies and inflation rates.



3. PROPERTY UNDER DEVELOPMENT continued

Inter-relationship between key unobservable inputs and fair value measurement

The fair value of investment properties would be affected by:

- change in capitalisation rates.
- change in expected market rental growth
- change in expected expense growth

The table below illustrates the sensitivity to key observable inputs in determining the valuation of property under development for those properties that were valued utilising the capitalised cash flow less costs to completion method.

	0,5% decrease in capitalisation rate R'000	0,5% increase in capitalisation rate R'000
<b>2023</b>		
Property under development as at 30 June 2023	28 000	(23 000)
<b>2022</b>		
Property under development as at 30 June 2022	29 000	(27 000)

	5% increase in revenue R'000	5% decrease in revenue R'000	5% decrease in expenses R'000	5% increase in expenses R'000
<b>2023</b>				
Property under development as at 30 June 2023	29 500	(29 500)	5 000	(5 000)
<b>2022</b>				
Property under development as at 30 June 2022	31 000	(31 000)	5 500	(5 500)

- If the valuer were to increase the terminal capitalisation by 0,50%, the total valuation would decrease by R23,0 million (2022: 27,0 million).
- If the valuer were to decrease the terminal capitalisation by 0,50%, the total valuation would increase by R28,0 million (2022: 29,0 million).
- If the valuer were to increase/(decrease) the revenue growth rates by 5%, the total valuation would increase/(decrease) by R29,5 million (2022: R31,0 million).
- If the valuer were to (increase)/decrease the expense growth rates by 5%, the total valuation would increase/(decrease) by R5,0 million (2022: R5,5 million).

4. PROPERTY, PLANT AND EQUIPMENT

	Group	
	2023 R'000	2022 R'000
Property	22 183	22 685
Cost	25 229	25 226
Accumulated depreciation	(3 046)	(2 541)
Computer equipment	190	337
Cost	1 336	1 079
Accumulated depreciation	(1 146)	(742)
Motor vehicles	–	–
Cost	323	527
Accumulated depreciation	(323)	(527)
Furniture, fittings and equipment	8 878	3 255
Cost	11 469	4 801
Accumulated depreciation	(2 591)	(1 546)
	31 251	26 277

Property comprises the owner-occupied property situated at unit 32 of Sectional Scheme 1 and 3 Melrose Boulevard. The properties have been bonded in favour of Nedbank Limited as security for interest-bearing borrowings (note 17).

	Group	
	2023 R'000	2022 R'000
<b>Movement for the year</b>		
Balance at the beginning of the year	26 277	27 094
Additions	6 325	762
Owner-occupied property	3	–
Computers	209	63
Furniture, fittings and equipment	6 113	699
Depreciation for the year	(1 954)	(1 579)
Owner-occupied property	(505)	(505)
Computers	(404)	(299)
Furniture, fittings and equipment	(1 045)	(700)
Motor vehicles	–	(75)
Acquired on acquisition of subsidiary (note 41)	603	–
Furniture, fittings and equipment	555	–
Computers	48	–
	31 251	26 277

5. INVESTMENT IN SUBSIDIARIES

	Company			
	Holding	Holding	Carrying	Carrying
	2023	2022	amount	amount
	%	%	2023	2022
			R'000	R'000
Bait Away Trading Proprietary Limited <sup>^</sup>	100	100	29 403	27 566
Beneficial Interest in Heriot Trust No. 1 <sup>^</sup>	100	100	90 586	89 502
Beneficial Interest in Heriot Trust No. 3 <sup>^</sup>	100	100	71 625	71 625
Chasie Investments Proprietary Limited*	100	100	49 085	49 085
Crosize Proprietary Limited <sup>^</sup>	100	100	5 320	–
Fin Properties 107 Proprietary Limited <sup>^</sup>	100	100	24 680	24 396
Heriot Properties International Proprietary Limited <sup>^</sup>	90	90	158 135	158 135
Heriot Properties Proprietary Limited <sup>^</sup>	100	100	1 515 451	1 515 451
Heriot Properties West Proprietary Limited <sup>^</sup>	100	100	67 001	64 900
Moditouch Proprietary Limited <sup>^</sup>	50	50	19 432	12 506
Phokeng Mall Proprietary Limited <sup>^</sup>	100	100	133 134	129 866
Terrace Drive Properties 34 Proprietary Limited <sup>^</sup>	100	100	200 736	200 736
Tiger Stripes Investments 31 Proprietary Limited <sup>^</sup>	100	100	1 058	1 481
			2 365 646	2 345 249

<sup>^</sup> Registered and operational in South Africa.

\* Registered and operational in Namibia.

	Company	
	2023	2022
	R'000	R'000
<b>Movement for the year</b>		
Balance at the beginning of the year	2 345 249	2 360 428
Cost of additional shares acquired in Moditouch Proprietary Limited*	5 500	–
Net impairment reversals/(losses)	14 897	(15 179)
Bait Away Trading Proprietary Limited	1 837	2 016
Beneficial Interest in Heriot Trust No. 1	1 084	2 177
Crosize Proprietary Limited	5 320	–
Fin Properties 107 Proprietary Limited	284	216
Heriot Properties West Proprietary Limited	2 101	(12 000)
Moditouch Proprietary Limited	1 426	(4 088)
Phokeng Mall Proprietary Limited	3 268	(3 268)
Tiger Stripes Investments 31 Proprietary Limited	(423)	(232)
	2 365 646	2 345 249

\* Moditouch Proprietary Limited issued additional shares equally to both its shareholders on 30 June 2023 and therefore the ownership % remained the same.  
Heriot REIT Limited paid R5,5 million in cash to acquire the additional shares issued.

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.

6. INVESTMENT IN ASSOCIATES

	Group			
	Effective	Effective		
	shareholding	shareholding	2023	2022
	2023	2022	R'000	R'000
	%	%		
Safari Investments RSA Limited ("Safari") (note 41)	–	19,2	–	328 336
Fixtrade 605 Proprietary Limited ("Fixtrade")	49,5	49,5	4 013	4 454
Other	50,0	50,0	122	659
			4 135	333 449

	Safari	Fixtrade	Other	Total
	R'000	R'000	R'000	R'000
<b>2023</b>				
Opening balance	328 336	4 454	659	333 449
Acquisition costs of associates	346 802	–	–	346 802
Cash	293 061	–	–	293 061
Non-cash (note 9)	53 741	–	–	53 741
Share of profits/(losses) for the year	80 450	(291)	(2 037)	78 122
Fair value adjustment on previously held equity interest (note 30)	(47 707)	–	–	(47 707)
Dividends paid by associates	(27 488)	(150)	–	(27 638)
Business combination (note 41)	(680 393)	–	1 500	(678 893)
Balance at year end	–	4 013	122	4 135
<b>2022</b>				
Opening balance	–	4 824	–	4 824
Transfer from financial assets (note 9.3)	38 475	–	–	38 475
Acquisition costs of associates	286 143	–	1 500	287 643
Share of profits/(losses) for the year	115 705	30	(841)	114 894
Distributable profits/(losses)	39 596	30	(841)	38 785
Bargain purchase on acquisition of associate	76 109	–	–	76 109
Impairment of associates (note 24)*	(76 110)	–	–	(76 110)
Dividends paid by associates	(35 877)	(400)	–	(36 277)
Balance at year end	328 336	4 454	659	333 449

	Group	
	2023	2022
	R'000	R'000
Dividends paid by associates comprise the following:		
Cash	27 638	17 195
Non-cash	–	19 082
	27 638	36 277

\* On 30 June 2022, the carrying value of the investment in Safari 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. Safari's listed share price was R5,70 per share which was lower than the carrying value of the investment on that date which indicated an impairment. On this basis, the investment in Safari was impaired to the listed share price as per IAS 36.

6. INVESTMENT IN ASSOCIATES continued

6.1 Investment in associates

6.1.1 Interest in Safari

Safari is a property investment company listed on the JSE as a REIT that specialises in quality commercial investments, especially convenience and small regional shopping centres predominantly located in Gauteng.

At 30 June 2022, Heriot owned 19,2% of Safari, which investment was equity-accounted on the basis that Heriot was deemed to have significant influence over Safari.

Through a general offer to purchase shares in Safari at R5,60 per share, announced on 3 June 2022, Heriot increased its interest to 26,8% by 9 December 2022.

At 31 March 2023, the Company's interest in Safari increased to an effective holding of 47,1% both through the acquisition of additional shares in Safari and as a result of the repurchase and cancellation by Safari of 53,0 million treasury shares.

Heriot is deemed to have a controlling interest in Safari by virtue of the following:

- SB Herring is both the Chairman of Heriot and Safari;
- Heriot has voting control as was evidenced by historical voting patterns.

On this basis, Safari has been consolidated with effect from 31 March 2023 by applying the "lag accounting" principle as follows:

- Safari's statement of financial position, as extracted from its year end results at 31 March 2023, has been consolidated by Heriot as at 30 June 2023; and
- Heriot has not consolidated Safari's comprehensive income for the three-month period 1 April to 30 June 2023.

The "lag accounting principle" was adopted to accommodate the fact that Safari and Heriot's year ends were not coterminous. The impact of this has been assessed as immaterial to the Group.

In April 2023, Safari changed its year end from 31 March to 30 June, thereby aligning with Heriot's year end. Safari's next reporting period will be for the 15 months ending 30 June 2024.

6.1.2 49,5% interest in Fixtrade

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.

Fixtrade is managed and controlled by the co-shareholder. All strategic and operational decisions are made by this co-shareholder and on this basis, Heriot is deemed to have significant influence but no control over Fixtrade.

7. DERIVATIVE FINANCIAL INSTRUMENT

	Group	
	2023 R'000	2022 R'000
JIBAR-linked interest rate swaps – acquired on acquisition of subsidiary (note 41)	2 632	–
Less: Short-term portion of derivative instrument	(1 615)	–
Non-cash	1 017	–

In line with an internal hedging policy adopted by the Safari Board, as well as requirements of their Absa facility agreements, a portion of the debt has been fixed by way of interest rate swaps. At the reporting date, Safari had hedged its exposure to interest rate fluctuations to 30% of its interest-bearing borrowings. Effective Group hedged exposure is 10% or R394,0 million. Although the derivatives meet the hedge accounting criteria, Safari has elected not to apply hedge accounting and therefore derivatives are classified and accounted for at fair value through profit or loss.

The Group will be impacted by the future replacement of JIBAR with a new benchmark rate, this impact is not expected to be material. Current indications are that the new benchmark rate will not become effective until 2024.

7. DERIVATIVE FINANCIAL INSTRUMENT continued

	Group	
	2023 R'000	2022 R'000
<b>Movement for the year</b>		
Balance at the beginning of the year	–	5 905
Acquired on acquisition of subsidiary (note 41)	2 632	–
Fair value adjustment movement for the year	–	(5 905)
	2 632	–

8. LEASES

The carrying amount of right-of-use assets/(liabilities) acquired on the acquisition of subsidiary (note 41) are as follows:

	Group	
	2023 R'000	2022 R'000
<b>Right-of-use assets – non-current assets</b>	3 997	–
<b>Lease liabilities:</b>	5 524	–
Non-current liabilities	4 531	–
Current liabilities	993	–
<b>Maturity analysis of lease liabilities</b>	6 658	–
Within one year	1 450	–
Within two years	1 562	–
Within three years	1 682	–
Within four years	1 964	–
Within five years	–	–

9. FINANCIAL ASSETS

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Loans to participants of the employee share scheme (note 9.1)	34 116	34 219	34 116	34 219
Loan to related party (note 9.2)	40 309	49 573	–	–
Investment in listed shares (note 9.3)	–	–	–	–
Loan to subsidiaries (net of expected credit loss) (note 9.4)	–	–	46 397	–
	74 425	83 792	80 513	34 219
Less: Short-term portion	–	(49 573)	(46 397)	–
	74 425	34 219	34 116	34 219



9. FINANCIAL ASSETS continued

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
<b>Movement for the year</b>				
<i>Loans to participants of the employee share scheme (note 9.1)</i>				
Balance at the beginning of the year	34 219	35 041	34 219	35 041
Loans repaid during the year	(3 026)	(2 974)	(3 026)	(2 974)
Interest received	2 923	2 152	2 923	2 152
<b>Balance at the end of the year</b>	<b>34 116</b>	<b>34 219</b>	<b>34 116</b>	<b>34 219</b>
<i>Loan to related parties ( note 9.2)</i>				
Balance at the beginning of the year	49 573	50 311		
Advanced during the year				
– Cash	1 577	126		
Interest charged	3 041	3 136		
Repaid during the year	(54 191)	(4 000)		
– Cash	(450)	(4 000)		
– Non-cash (note 6)	(53 741)	–		
	–	49 573		
Vendor loan advanced during the year				
– Non-cash	40 309	–		
<b>Balance at the end of the year</b>	<b>40 309</b>	<b>49 573</b>		
<i>Investment in listed shares (note 9.3)</i>				
Balance at the beginning of the year	–	38 475		
Transfer to investment in associates	–	(38 475)		
<b>Balance at the end of the year</b>	<b>–</b>	<b>–</b>		
<i>Loan to subsidiaries (note 9.4)</i>				
Balance at the beginning of the year			–	535 341
Transferred (from)/to loans from subsidiaries/other financial liabilities (note 19)			(45 978)	30 243
Secured liabilities refinanced by subsidiary companies			–	(739 997)
Non-cash expenses			(361)	–
Transferred (to)/from dividends receivable (note 11)			(22 145)	151 087
Advanced to subsidiaries during the year			114 881	–
Repaid during the year			–	(300)
Interest charged			–	1 046
Allowance for expected credit losses			–	22 580
<b>Balance at the end of the year</b>			<b>46 397</b>	<b>–</b>

9. FINANCIAL ASSETS continued

In terms of the provisions of IFRS 9 *Financial Instruments*, which requires a loss allowance to be recognised for all exposures to credit risk, the Group and Company apply the general approach to measuring expected credit losses in respect of related party loans, share scheme loans, amounts receivable from subsidiaries and other receivables. The loss allowance for these receivables is calculated based on 12-month expected losses if the credit risk has not increased significantly since initial recognition. In cases where the credit risk has increased significantly since initial recognition, the loss allowance is calculated based on lifetime expected credit losses. The loss allowance is updated to either 12-month or lifetime expected credit losses at each reporting date based on changes in the credit risk since initial recognition. If a loan is considered to have a low credit risk at the reporting date, then it is assumed that the credit risk has not increased significantly since initial recognition. On the other hand, if the borrower's financial position and ability to settle the funds have deteriorated, then it is assumed that there has been a significant increase in credit risk since initial recognition. Refer to the accounting policies for general risk assessment approach procedures.

- 9.1 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 8,68% (2022: 6,29% ) for the year;
  - If the interest payable on the loans exceeds the dividends in respect of the year for which such dividends are declared, then such excess shall be added to and shall be deemed to form part of the loans;
  - If the dividends payable on the plan shares in respect of the year for which such dividends are declared exceed the interest payable for such year, then such excess shall be made available to the participant unless the participant has indicated that such excess is to be applied in reducing the loan;
  - The loans are secured by a pledge of shares to the Company;
  - The Company is entitled to demand payment of the debt outstanding in respect of any plan shares at any time after the expiration of 10 years from the date of the agreement;
  - The employees to whom the shares have been issued remain liable for the relevant outstanding scheme debt, irrespective of the value of the underlying shares, i.e. the employee is unconditionally bound to repay the loan, notwithstanding any decrease in the underlying value of the shares; and
  - At the reporting date, the expected credit loss considerations relating to the loans were the share price, interest rates and historical and projected dividends. As the market value of each Heriot share of R11,50 exceeds the carrying amount of R10,34 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.
- 9.2 The loan to The Gusi Trust was settled during the year. The loan was unsecured and incurred interest at the rate of the Group's weighted average cost of debt of 8,68% (2022: 6,29%) per annum.

On 30 June 2023 (the "effective date"), Heriot legally sold off its interest in its wholly owned subsidiary, Hagley 3865 Proprietary Limited ("Hagley"), to its majority shareholder, Heriot Investments Proprietary Limited (the "purchaser"), on loan for R40,3 million. This vendor financing bears interest at the three-month JIBAR rate plus 185bps and is repayable no later than 24 months after the advance date. In terms of the agreement, the purchaser has offered Heriot the option to buy back up to 100% of the equity in Hagley at cost. This call option must be exercised within five years from the effective date or as soon as Heriot's balance sheet allows for same, whichever occurs first. The call option has resulted in deferred revenue being recognised (note 19).

The purchaser's statement of financial position and historical and projected income have been assessed which confirms it has the necessary funds to settle the amount due.

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. Accordingly, on the basis of a 12-month expected credit loss assessment, no credit loss allowance has been provided for.

- 9.3 The fair value of listed investments is determined using the closing market price on the relevant exchange. The investment in Safari was transferred to Investments in associates in the prior financial year as significant influence was obtained (note 6).
- 9.4 Loans to subsidiaries are interest-free and repayable on demand. It is the intention to have the loans fully settled within the next 12 months (2022: Loans to subsidiaries of R145,5 million bore interest at variable rates while loans of R389,8 million were interest-free). Loans were settled in full in the comparative period.

Each subsidiary's financial position and ability to settle the funds was assessed as low-risk considering that the net value of the subsidiaries would be sufficient to cover the amounts due. The loans met the requirements for low-risk financial assets and, consequently, 12-month expected credit losses were evaluated. A probability-weighted risk of default during the next 12 months was applied to exposure at default. All available forward-looking information, including profit forecasts, estimates of economic growth and the expected value of the shares, were taken into account, which indicated no expected credit loss and consequently the loans were not impaired.

9. FINANCIAL ASSETS continued

The table below presents the expected credit loss rates applied to each loan as at 30 June 2023.

Group				
	Basis of expected credit losses ("ECL")	Gross carrying value of loans	Loss allowance (lifetime expected credit loss)	Net carrying value of loans
<b>2023</b>				
Heriot Investments Proprietary Limited	12-month ECL	40 309	–	40 309
Loans to participants of the employee share scheme	12-month ECL	34 116	–	34 116
		74 425	–	74 425
<b>2022</b>				
Loans to participants of the employee share scheme	12-month ECL	34 219	–	34 219
The Gusi Trust	12-month ECL	49 573	–	49 573
		83 792	–	83 792

Company				
	Basis of expected credit losses ("ECL")	Gross carrying value of loans	Loss allowance (lifetime expected credit loss)	Net carrying value of loans
<b>2023</b>				
Loans to participants of the employee share scheme	12-month ECL	34 116	–	34 116
Heriot Properties Proprietary Limited	12-month ECL	19 795	–	19 795
Crosize Proprietary Limited	12-month ECL	23 950	–	23 950
Heriot Properties West Proprietary Limited	12-month ECL	2 652	–	2 651
		80 513	–	80 512
<b>2022</b>				
Loans to participants of the employee share scheme	12-month ECL	34 219	–	34 219
		34 219	–	34 219

Company		
	2023 R'000	2022 R'000
<b>Reconciliation of loss allowances</b>		
Balance at the beginning of the year	–	22 580
Adjustment in loss allowance recognised in profit or loss for the year	–	(22 580)
<b>Balance at the end of the year</b>	–	–

10. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
<b>Financial instruments</b>				
Gross trade receivables	23 369	10 495	–	–
ECL – allowance for credit losses	(3 188)	(4 777)	–	–
Net trade receivables	20 181	5 718	–	–
Municipal deposits <sup>(1)</sup>	8 861	8 080	–	–
Dividend on Safari shares <sup>(2)</sup>	–	19 082	–	–
Management fees <sup>(3)</sup>	358	1 854	–	–
Other receivables <sup>(4)</sup>	2 224	1 858	–	–
<b>Non-financial instruments</b>				
Prepayments	7 607	5 797	–	–
Value added taxation	8 017	2 894	–	–
	47 248	45 283	–	–
The balance above comprises the following acquired on acquisition of subsidiary (note 41):				
Gross trade receivables	18 011			
ECL – allowance for credit losses	(1 012)			
Net trade receivables	16 999	–		
Municipal deposits	999	–		
Other receivables	5	–		
<b>Non-financial instruments</b>				
Prepayments	5 123	–		
	23 126	–		

<sup>(1)</sup> Municipal deposits mainly comprise deposits held with large municipalities and state-owned entities such as the City of Cape Town, Ekurhuleni and Eskom in the form of cash and/or bank guarantees issued. The financial positions have been assessed as stable. 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.

<sup>(2)</sup> Comprises dividends due from Safari. Dividends were settled in full during the current financial period. 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.

<sup>(3)</sup> Comprises fees and reimbursement of costs due for the management and development of a portfolio of properties in Zambia and the Democratic Republic of the Congo. Post year end, approximately 85% of the receivable has been recovered and the debtors have remained financially sound. 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.

<sup>(4)</sup> Other receivables include an amount of R0,6 million (2022: R0,5 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. JCB Herring's financial position has been assessed as sound with a further commitment to repay the amount due within the next 12 months. 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.

10. TRADE AND OTHER RECEIVABLES continued

Trade receivables

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

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

10.1 Credit quality of trade receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on an individual basis, trade receivables are assessed net of the value added tax clawback and deposit or guarantee held. Arrears aged 90 days and over are in most instances deemed to be irrecoverable and provided for. The expected loss rates are based on the Group's historical credit losses experienced over the period prior to the period end and are reassessed at each reporting date.

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 has 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 and the broader economic environment, both locally and internationally.

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

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

10. TRADE AND OTHER RECEIVABLES continued

10.1 Credit quality of trade receivables continued

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:

	2023		2022	
	Estimated gross carrying value at default R'000	Loss allowance (12-month expected credit loss) R'000	Estimated gross carrying value at default R'000	Loss allowance (12-month expected credit loss) R'000
<b>Group</b>				
Not past due: 0% (2022: 5%)	7 226	(22)	3 848	(210)
30 days past due: 5% (2022: 31%)	941	(46)	383	(120)
60 days past due: 4% (2022: 26%)	2 191	(90)	345	(89)
More than 90 days: 23% (2022: 74%)	13 011	(3 030)	5 919	(4 358)
	23 369	(3 188)	10 495	(4 777)

Trade receivables include R18,0 million from the acquisition of the subsidiary including a R1,0 million loss allowance (note 41).

The table below reflects Heriot's position excluding the acquisition of the subsidiary.

	2023		2022	
	Estimated gross carrying value at default R'000	Loss allowance (lifetime expected credit loss) R'000	Estimated gross carrying value at default R'000	Loss allowance (lifetime expected credit loss) R'000
<b>Group excluding acquisition of subsidiary</b>				
Not past due: 1% (2022: 5%)	2 595	(22)	3 848	(210)
30 days past due: 27% (2022: 31%)	93	(25)	383	(120)
60 days past due: 89% (2022: 26%)	57	(51)	345	(89)
More than 90 days: 80% (2022: 74%)	2 613	(2 078)	5 919	(4 358)
	5 358	(2 176)	10 495	(4 777)



10. TRADE AND OTHER RECEIVABLES continued

10.1 Credit quality of trade receivables continued

	Group	
	2023 R'000	2022 R'000
<b>Reconciliation of loss allowances</b>		
Balance at the beginning of the year	(4 777)	(4 426)
Recognised in profit or loss for the year	2 110	(351)
Loss allowances utilised	2 209	816
Loss allowance raised	(99)	(1 167)
Acquired on acquisition of subsidiary (note 41)	(1 012)	–
Transferred to held for sale (note 14)	491	–
<b>Balance at the end of the year</b>	<b>(3 188)</b>	<b>(4 777)</b>

Shoprite Checkers and Mpact are the Group's only major customers, contributing R55,8 million and R53,6 million, respectively, to rental income for the year ended 30 June 2023, equating to 11,1% and 10,7% of total revenue for the year under review (2022: 14,5% and 11,7%, respectively).

11. DIVIDENDS RECEIVABLE FROM SUBSIDIARIES

	Company	
	2023 R'000	2022 R'000
Dividends receivable from subsidiaries	71 194	35 449
<b>Movement for the year</b>		
Balance at the beginning of the year	35 449	199 334
Dividends declared by subsidiaries	267 196	270 984
Dividends receivable offset against loans to subsidiaries (note 9)	22 145	(151 087)
Interest receivable on loans to subsidiaries (note 9)	–	3 239
Cash received	(254 647)	(287 021)
Transfer to advances from subsidiaries/other financial liabilities (refer to note 19)	1 051	–
<b>Balance at the end of the year</b>	<b>71 194</b>	<b>35 449</b>

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.

12. INVENTORIES

	Group	
	2023 R'000	2022 R'000
On acquisition of subsidiary (note 41)	29 869	–

As part of the Platz am Meer mixed-use development, Safari Investments Namibia Proprietary Limited developed 36 luxury sea-front apartments and offices together with a shopping centre. The entire development has been incorporated into a sectional title scheme with 39 units consisting of 36 apartments, one office unit and two commercial units which are trading as the Platz am Meer Shopping Centre.

In this regard, 36 close corporations and one additional private company were incorporated in which these units vest. A proportionate allocation of the development cost of the land was transferred to these close corporations and private company. The person/s acquiring the apartments or office units will then acquire the membership or shares in the close corporation or private company, respectively.

Currently, Safari Investments Namibia Proprietary Limited holds 100% of the shares in the private company known as Platz am Meer Property One Proprietary Limited and through its nominee, Mr DC Engelbrecht, the Group CEO, the membership in the remaining unsold close corporations.

During the current financial year but prior to the business combination, Safari disposed of eight units with the remaining six units not yet transferred. These were valued by an independent valuer, Peter Parfitt of Quadrant Properties Proprietary Limited, on the effective date being 31 March 2023 with a net realisable value of R28 000 000, excluding unit 29 which has a remaining value of R1 869 028.

13. CASH AND CASH EQUIVALENTS

For purposes of the cash flow statement, cash and cash equivalents comprise:

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
<b>Bank balances</b>	<b>45 695</b>	<b>122 959</b>	<b>12 197</b>	<b>110 553</b>
The year end balance above includes cash and cash equivalents from the business combination (note 41) amounting to:	10 914	–		

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

Due to the short-term nature of cash and cash equivalents, the carrying amount is deemed to approximate the fair value.

Bank guarantees amounting to R7,069 million have been issued by First National Bank Limited and Nedbank Limited as security for various municipal deposits held in the portfolio.

14. NON-CURRENT ASSETS AND LIABILITIES HELD FOR SALE

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Assets held for sale	275 206	–	–	–
Liabilities held for sale	(71 041)	–	–	–
	204 165	–	–	–

The investments in subsidiaries and/or investment property are classified as held for sale until such time the Directors decide that these will be recovered through sale rather than through continuing use.

14. NON-CURRENT ASSETS AND LIABILITIES HELD FOR SALE continued

	Group	
	2023 R'000	2022 R'000
<b>Movement for the year</b>		
Balance at the beginning of the year	–	6 500
Hagley 3865 Proprietary Limited* (“Hagley”)	19 265	–
Assets held for sale	90 306	–
Liabilities held for sale	(71 041)	–
On acquisition of subsidiary (note 41)	184 900	–
Change in fair value	–	(250)
Disposal	–	(6 250)
	204 165	–

	Group	
	2023 R'000	2022 R'000
<b>Hagley’s assets and liabilities held for sale comprise:</b>		
<b>Assets</b>		
Investment property	86 702	–
Trade and other receivables	2 852	–
Trade receivables	520	
Trade receivables expected credit loss provision	(491)	
Other receivables	2 823	
Cash and cash equivalents	752	–
	90 306	–
<b>Liabilities</b>		
Interest-bearing borrowings	70 830	–
Trade and other payables	211	–
	71 041	–

On 30 June 2023, Heriot signed an agreement to dispose of 100% of its interest in Hagley to Heriot Investments Proprietary Limited (note 9.2). In terms of the agreement of sale, Heriot has a call option to acquire up to 100% of the equity in Hagley. As such, Heriot is deemed to still have control of Hagley and 100% of its assets and liabilities are reflected in Heriot’s Group statement of financial position. Therefore, the sale was not been completed for accounting purposes and has resulted in deferred capital proceeds of R40,3 million being recognised in Heriot’s statement of financial position at 30 June 2023 (note 19). It is Heriot’s intention to sell the Company within 12-months.

As the criteria in IFRS 5 have been met, Hagley has therefore been classified as a “disposal group held for sale” and is presented separately in the statement of financial position.

The Safari Board resolved to dispose of non-core assets valued at R184,9 million and negotiations with several interested parties have subsequently taken place. The disposal is consistent with Safari’s long-term policy to focus its activities on higher-yielding retail opportunities as well as to optimise capital allocation. The Soweto Day Hospital and Mnandi Shopping Centre, which are expected to be sold within 12 months, have been classified as a disposal Group held for sale and are presented separately in the statement of financial position.

The proceeds from disposals are expected to be in line with the fair value of the related assets and liabilities and, accordingly, no impairment losses have been recognised on the classification of these assets as held for sale.

15. STATED CAPITAL

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
<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.

16. NON-CONTROLLING INTERESTS (“NCI”)

	Group			
	Effective voting rights of NCI 2023 %	Effective voting rights of NCI 2022 %	2023 R'000	2022 R'000
Heriot Properties International Proprietary Limited	10,0	10,0	30 764	24 105
Moditouch Proprietary Limited	50,0	50,0	19 483	12 556
Hagley 3865 Proprietary Limited	–	55,0	–	2 490
60 Adderley Proprietary Limited	40,0	40,0	1 443	3 240
Safari Investments RSA Limited	53,5	–	1 299 194	–
			1 350 884	42 391

**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.

**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.

**Hagley 3865 Proprietary Limited**

At 30 June 2022, Heriot Properties Proprietary Limited (“Heriot Properties”), a wholly owned subsidiary of the Group, owned 55% of Hagley, a Company registered and operating in South Africa. Heriot Properties was deemed to control Hagley by virtue of the voting rights held. During the current reporting period, Heriot acquired the 45% minority interest for R21,239 million, which resulted in a loss of R18,749 million that has been recognised in the statement of changes in equity.

On 30 June 2023, Heriot signed an agreement to dispose of 100% of its interest in Hagley to Heriot Investments (note 9.2). In terms of the agreement of sale, Heriot has a call option to acquire up to 100% of the equity in Hagley (note 19). Therefore, the sale was not recognised for accounting purposes. As such, Heriot is deemed to still have control of Hagley and 100% of its assets and liabilities are reflected in Heriot’s Group statement of financial position. No risk is attributable to the NCI as a result of the option agreement, therefore nothing has been allocated to the NCI.

**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.

16. NON-CONTROLLING INTERESTS (“NCI”) continued

Safari Investments RSA Limited (note 41)

At 31 March 2023, the Company's interest in Safari increased to an effective holding of 47,1% both through the acquisition of additional shares in Safari and as a result of the repurchase and cancellation by Safari of 53,0 million treasury shares.

Heriot is deemed to have a controlling interest in Safari by virtue of the following:

- SB Herring is both the Chairman of Heriot and Safari; and
- Heriot has voting control as was evidenced by historical voting patterns.

On this basis, Safari has been consolidated with effect from 31 March 2023, by applying the “lag accounting” principle (note 6.1.1).

On 30 June 2023, Heriot sold 1,5 million Safari shares at R5,60 per share to its majority shareholder, Heriot Investments Proprietary Limited. Heriot's effective shareholding in Safari consequently reduced to 46,5% at the end of the reporting period.

The NCI balance is reconciled as follows:

	2023					
	HPI R'000	Moditouch R'000	Hagley R'000	60 Adderley R'000	Safari R'000	Total R'000
Opening balance	24 105	12 556	2 490	3 240	–	42 391
Share of profits/(losses) for the year	8 705	6 377	103	(1 797)	–	13 388
Distributable profits	1 895	4 877	103	(498)	–	6 377
Non-distributable profit/(losses)	6 810	1 500	–	(1 299)	–	7 011
Acquisition of minority interest in Hagley 3865 Proprietary Limited*	–	–	(2 490)	–	–	(2 490)
Issue of additional shares in Moditouch Proprietary Limited	–	5 500	–	–	–	5 500
On acquisition of subsidiary (note 41)	–	–	–	–	1 284 387	1 284 387
Sale of Safari shares**	–	–	–	–	14 807	14 807
Dividends declared to minorities	(2 046)	(4 950)	(103)	–	–	(7 099)
Balance at year end	30 764	19 483	–	1 443	1 299 194	1 350 884

	2022					
	HPI R'000	Moditouch R'000	Hagley R'000	60 Adderley R'000	Safari R'000	Total R'000
Opening balance	24 247	16 645	2 501	3 156	–	46 549
Share of profits/(losses) for the year	2 010	1 140	988	508	–	4 646
Distributable profits	2 161	5 140	744	508	–	8 553
Non-distributable profit/(losses)	(151)	(4 000)	244	–	–	(3 907)
Dividends declared to minorities	(2 152)	(5 229)	(999)	(424)	–	(8 804)
Balance at year end	24 105	12 556	2 490	3 240	–	42 391

Acquisition of minority interest in  
Hagley 3865 Proprietary Limited\*

Carrying amount of minority interest	2 490
Purchase price	(21 239)
Loss on acquisition of minority interest	(18 749)

Sale of shares in Safari\*\*

Net asset value of shares sold	14 807
Proceeds on sale of shares	(8 801)
Loss on sale of Safari shares	6 006

16. NON-CONTROLLING INTERESTS (“NCI”) continued

Summarised financial information is presented below for each subsidiary that has an NCI. The financial information is prepared by the respective entities in accordance with IFRS.

	2023			
	HPI R'000	Moditouch R'000	60 Adderley R'000	Safari R'000
NCI effective interest/voting rights	10%	50%	40%	53,5%
Summarised statement of financial position				
Non-current assets	495 002	101 000	69 108	3 542 917
Investment property	495 000	101 000	69 000	3 535 800
Other non-current assets	2	–	108	7 117
Current assets	24 157	908	1 288	65 524
Loans to Group companies	12 466	–	–	–
Trade and other receivables	6 928	126	207	23 126
Inventories	–	–	–	29 869
Other current assets	–	–	–	1 615
Cash and cash equivalents	4 763	782	1 081	10 914
Non-current assets held for sale	–	–	–	184 900
Total assets	519 159	101 908	70 396	3 793 341
Non-current liabilities	192 119	60 000	61 650	722 384
Interest-bearing borrowings	187 868	60 000	61 650	704 604
Other non-current liabilities	4 251	–	–	17 780
Current liabilities	19 671	3 044	5 146	641 888
Interest-bearing borrowings	–	–	–	608 926
Loans from Group companies	–	–	1 440	–
Other current liabilities	19 671	3 044	3 706	32 962
Total liabilities	211 790	63 044	66 796	1 364 272
Net assets	307 369	38 864	3 600	2 429 069
Net assets attributable to NCI	30 737	19 432	1 440	1 299 194



16. NON-CONTROLLING INTERESTS (“NCI”) continued

	2023			
	HPI R’000	Moditouch R’000	60 Adderley R’000	Safari R’000
<b>Summarised statement of comprehensive income</b>				
Revenue	44 277	12 336	11 513	456 899
Other income	12 978	–	–	33 007
Other costs	–	–	–	(52 439)
Operating costs	(22 518)	(1 862)	(6 080)	(154 620)
Fair value adjustments	65 735	8 183	(3 908)	160 158
Interest income	292	75	2	3 488
Interest expense	(13 711)	(5 979)	(6 019)	(107 413)
Taxation	–	–	–	(16 168)
<b>Total comprehensive income</b>	<b>87 053</b>	<b>12 753</b>	<b>(4 492)</b>	<b>322 912</b>
<b>Attributable to non-controlling shareholders:</b>				
<b>Distributable profits</b>	<b>1 895</b>	<b>4 877</b>	<b>(498)</b>	<b>–</b>
<b>Non-distributable profits/(losses)</b>	<b>6 810</b>	<b>1 500</b>	<b>(1 299)</b>	<b>–</b>
	<b>8 705</b>	<b>6 377</b>	<b>(1 797)</b>	<b>–</b>
<b>Summarised statement of cash flows</b>				
Cash flows from operating activities	36 464	186	(1 026)	27 964
Cash flows from investing activities	(66 564)	–	(2 525)	(28 865)
Cash flow from financing activities	33 385	–	2 400	4 684
Net increase/(decrease) in cash and cash equivalents	3 285	186	(1 151)	3 783
Cash and cash equivalents at the beginning of the period	1 478	596	2 232	7 131
<b>Cash and cash equivalents at the end of the period</b>	<b>4 763</b>	<b>782</b>	<b>1 081</b>	<b>10 914</b>

16. NON-CONTROLLING INTERESTS (“NCI”) continued

	2022			
	HPI R’000	Moditouch R’000	Hagley R’000	60 Adderley R’000
<b>NCI effective interest/voting rights</b>	10%	50%	45%	40%
<b>Summarised statement of financial position</b>				
<b>Non-current assets</b>	358 502	98 000	39 000	70 265
Investment property	358 500	98 000	39 000	70 000
Other non-current assets	2	–	–	265
<b>Current assets</b>	5 336	596	2 876	2 539
Loans to Group companies	–	–	–	–
Trade and other receivables	3 858	–	894	307
Cash and cash equivalents	1 478	596	1 982	2 232
<b>Total assets</b>	<b>363 838</b>	<b>98 596</b>	<b>41 876</b>	<b>72 804</b>
<b>Non-current liabilities</b>	103 839	70 963	33 383	61 650
Interest-bearing borrowings	–	70 963	31 055	61 650
Loans from Group companies	99 588	–	2 328	–
Other non-current liabilities	4 251	–	–	–
<b>Current liabilities</b>	19 266	2 622	1 011	3 061
Interest-bearing borrowings	–	650	–	–
Other non-current liabilities	19 266	1 972	1 011	3 061
<b>Total liabilities</b>	<b>123 105</b>	<b>73 585</b>	<b>34 394</b>	<b>64 711</b>
<b>Net assets</b>	<b>240 733</b>	<b>25 011</b>	<b>7 482</b>	<b>8 093</b>
<b>Net assets attributable to NCI</b>	<b>24 073</b>	<b>12 506</b>	<b>3 367</b>	<b>3 237</b>

16. NON-CONTROLLING INTERESTS (“NCI”) continued

	2022			
	HPI R'000	Moditouch R'000	Hagley R'000	60 Adderley R'000
<b>Summarised statement of comprehensive income</b>				
Revenue	28 949	10 706	6 971	8 637
Other income	11 231	–	1 443	1 676
Operating costs	(15 152)	(276)	(3 845)	(5 356)
Fair value adjustments	1 080	(4 129)	(150)	555
Interest income	34	32	55	3
Interest expense	(6 196)	(4 053)	(2 278)	(4 244)
Taxation	157	–	–	–
<b>Total comprehensive income</b>	<b>20 103</b>	<b>2 280</b>	<b>2 196</b>	<b>1 271</b>
<b>Attributable to non-controlling shareholders</b>				
<b>Distributable profits/(losses)</b>	2 161	5 140	743	508
<b>Non-distributable profits/(losses)</b>	(151)	(4 000)	245	–
	2 010	1 140	988	508
<b>Summarised statement of cash flows</b>				
Cash flows from operating activities	22 845	(269)	1 681	1 844
Cash flows from investing activities	(29 249)	–	(956)	(63)
Cash flow from financing activities	6 165	–	32	(3 375)
Net increase/(decrease) in cash and cash equivalents	(239)	(269)	757	(1 594)
Cash and cash equivalents at the beginning of the period	1 717	865	1 225	3 826
<b>Cash and cash equivalents at the end of the period</b>	<b>1 478</b>	<b>596</b>	<b>1 982</b>	<b>2 232</b>

17. INTEREST-BEARING LIABILITIES

	Group	
	2023 R'000	2022 R'000
<b>Nedbank Limited</b>	<b>1 255 948</b>	939 801
<b>Facility 1</b> Interest-only facility of R399,2 million bearing interest at three-month JIBAR plus 175bps and repayable on 1 September 2027.	<b>331 777</b>	399 151
<b>Facility 2</b> Interest-only facility of R325,0 million bearing interest at three-month JIBAR plus 169bps and repayable on 1 July 2024.	<b>321 907</b>	310 045
<b>Facility 3</b> Interest-only facility of R80,0 million bearing interest at three-month JIBAR plus 195bps and repayable on 1 December 2025.	<b>80 000</b>	80 000
<b>Facility 4</b> Interest-only facility of R57,9 million bearing interest at three-month JIBAR plus 195bps and repayable on 21 January 2026.	<b>57 900</b>	57 900
<b>Facility 5</b> Interest-only facility of R110,0 million bearing interest at three-month JIBAR plus 195bps and repayable on 5 August 2026.	<b>110 000</b>	–
<b>Facility 6</b> The interest-only facility bears interest at 0,5% below the prime bank overdraft rate, is secured by a first mortgage bond over investment property valued at R69,0 million (2022: R70,0 million) and is repayable on 2 September 2024.	<b>61 650</b>	61 650
<b>Facility 7</b> Interest-only facility bearing interest at the prime bank overdraft rate and was repaid on 19 April 2023.	<b>–</b>	31 055
<b>Facility 8</b> Interest-only facility of R400,0 million bearing interest at three-month JIBAR plus 165bps, repayable on 20 May 2025 and secured over 52,2 million Safari shares.	<b>292 714</b>	–

Facilities 1 to 5 are secured by first mortgage bonds over investment property valued at R2,929 billion (2022: R2,212 billion).

17. INTEREST-BEARING LIABILITIES continued

	Group	
	2023 R'000	2022 R'000
<b>Standard Bank</b>	1 049 000	1 060 500
<b>Facility 9 comprising:</b>		
Interest-only facility bearing interest at a rate of three-month JIBAR plus 1,95%;	350 000	350 000
Interest-only facility bearing interest at a rate of prime less 1,40%; and	–	500
Facility 9 is repayable on 1 September 2025.		
<b>Facility 10</b>		
Interest-only facility bearing interest at a rate of three-month JIBAR plus 1,87% and repayable on 21 December 2025.	164 000	164 000
<b>Facility 11</b>		
Interest-only facility bearing interest at a rate of three-month JIBAR plus 1,80% and repayable on 30 November 2025.	145 000	145 000
<b>Facility 12</b>		
Interest-only facility bearing interest at a rate of three-month JIBAR plus 1,87% and repayable on 25 July 2025.	50 000	50 000
<b>Facility 13</b>		
The interest-only facility bears interest at a rate of three-month JIBAR plus 180bps and is secured by a first covering mortgage bond over investment property valued at R106,0 million (2022: R98 million). The facility was renewed on 30 June 2023 for a further three years, bears interest at a rate of three-month JIBAR plus 183bps, was reduced to R60,0 million and is repayable on 30 June 2026.	60 000	71 000
<b>Facility 14</b>		
Interest-only facility bearing interest at a rate of three-month JIBAR plus 1,87% and repayable on 25 July 2025. The facility is secured over 50,0 million Safari shares.	280 000	280 000

Facilities 9 to 12 are secured by first mortgage bonds over investment property valued at R2,048 billion (2022: R1,899 billion).

17. INTEREST-BEARING LIABILITIES continued

	Group	
	2023 R'000	2022 R'000
<b>Sanlam Capital Markets Proprietary Limited</b>	286 400	215 570
The interest-only facility bears interest at a rate of three-month JIBAR plus 180bps, is secured by a first mortgage bond over investment property valued at R379,0 (2022: R367,0 million) and is repayable on 4 August 2025.	215 570	215 570
The interest-only facility bears interest at a rate of three-month JIBAR plus 185bps during the construction period and reverts to an amortising facility upon completion repayable over a five-year period. The property is secured by a first mortgage bond over investment property valued at R86,7 million (2022: R39,0 million) and is repayable in April 2028. The facility was transferred to liabilities held for sale on 30 June 2023 (note 14).	70 830	–
<b>Safari – on acquisition of subsidiary (note 41)</b>		
Safari successfully implemented a security special purpose vehicle (“SPV”) whereby bonds have been registered over most of Safari’s investment properties in the security SPV structure to provide pooled security to lenders. The structure is regulated by a Common Terms Agreement, cession of security, counter indemnity agreements as well as debt guarantees. Absa and Standard Bank remain as Safari’s financiers.	1 313 530	–
<b>Facility B</b>		
R200 000 000 – quarterly repayments of interest only at the three-month JIBAR rate plus 1,95% with the capital due upon maturity in January 2024.	201 597	–
<b>Facility E</b>		
R150 000 000 – quarterly repayments of interest only at the three-month JIBAR rate plus 2,2% with the capital due upon maturity in August 2023.	151 229	–
<b>Facility F</b>		
R100 000 000 – quarterly repayments of interest only at the three-month JIBAR rate plus 2,3% with the capital due upon maturity in August 2024.	100 828	–
<b>Facility I</b>		
R250 000 000 – quarterly repayments of interest only at the three-month JIBAR rate plus 2,35% with the capital due upon maturity in June 2024.	252 081	–
<b>Facility J</b>		
R250 000 000 – quarterly repayments of interest only at the three-month JIBAR rate plus 2,5% with the capital due upon maturity in June 2025.	252 113	–
<b>Facility K</b>		
R200 000 000 – monthly repayments of interest only at the prime rate less 1,5% with the capital due upon maturity in June 2025. As at 31 March 2023, R54 441 548 of this revolving credit facility has been utilised.	53 442	–
<b>Facility L</b>		
R303 000 000 – quarterly repayments of interest only at the three-month JIBAR rate plus 1,5% in year one and 1,65% thereafter, with the capital due upon maturity in November 2026.	305 380	–
Other interest-bearing liability balances	(3 140)	–
Total interest-bearing liabilities	3 904 878	2 215 871
Less: Short-term portion of interest-bearing borrowings	(608 926)	(247 055)
Less: Interest-bearing borrowings transferred to held for sale (note 14)	(70 830)	–
	3 225 122	1 968 816

Negotiations with lenders for new facilities to replace the maturing facilities are at an advanced stage at the date of publication of this report. The implementation of the new facilities remains subject to conditions precedent and customary for facilities of this nature.

At the reporting date, the Group had unutilised facilities of R365,3 million.



17. INTEREST-BEARING LIABILITIES continued

Debt covenants – loan-to-value (“LTV”) and interest cover ratios (“ICR”)

	Group	
	Actual ratios 30 June 2023	Covenant ratios 30 June 2023
Corporate ICR*	2,64	>2
Corporate LTV	41,1%	<50%

\* Includes dividends from Safari.

Heriot remains within the parameters of compliance with debt covenants and does not foresee any breaching of covenant triggers.

18. DEFERRED TAXATION

	Group	
	2023 R'000	2022 R'000
Capital allowances	92 784	74 846
Prepayments	(16 499)	(12 754)
	76 285	62 092
<b>Movement for the year</b>		
Balance at the beginning of the year	62 092	63 732
Per statement of comprehensive income	944	(1 640)
– Arising on capital allowances in the current year	944	308
– Adjustment to rate of taxation	–	(1 948)
On acquisition of subsidiary (note 41)	13 249	–
	76 285	62 092

With effect from 24 July 2018, the Company converted to a 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.

19. OTHER FINANCIAL LIABILITIES

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Loans from subsidiaries	–	–	13 518	30 243
Tiger Stripes Investments 31 Proprietary Limited	–	–	16	–
Fin Properties 107 Proprietary Limited	–	–	1 036	–
Heriot Properties International Proprietary Limited	–	–	12 466	–
Heriot Properties Proprietary Limited	–	–	–	30 243
Deferred capital proceeds				
Heriot Investments Proprietary Limited (note 9.2)	40 309	–	–	–
	40 309	–	13 518	30 243
<b>Movement for the year</b>				
Balance at the beginning of the year	–	–	30 243	–
Loans advanced from subsidiaries	–	–	28 202	–
Transferred from/(to) loans to subsidiaries/other financial assets (note 9)	–	–	(45 978)	30 243
Transferred from dividends receivable (note 11)	–	–	1 051	–
Call option – deferred capital proceeds raised	40 309	–	–	–
<b>Balance at the end of the year</b>	40 309	–	13 518	30 243

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

20. TRADE AND OTHER PAYABLES

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
<b>Financial instruments</b>				
Accrued interest	35 525	21 747	–	–
Accrued expenses	50 606	36 220	–	–
Tenant deposits	26 495	10 756	–	–
Other payables	1 243	1 634	58	–
<b>Non-financial instruments</b>				
Rent received in advance	33 034	11 851	–	–
Value added taxation	7 738	5 043	–	–
	154 641	87 251	58	–

The balance above includes R31,9 million on acquisition of subsidiary (note 41).

21. DIVIDEND PAYABLE TO NON-CONTROLLING SHAREHOLDERS

	Group	
	2023 R'000	2022 R'000
Dividend payable to non-controlling shareholders	10 778	9 931
<b>Movement for the year</b>		
Balance at the beginning of the year	9 931	7 826
Dividends declared	7 099	8 804
Dividends paid	(6 252)	(6 699)
<b>Balance at the end of the year</b>	<b>10 778</b>	<b>9 931</b>

22. REVENUE

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Gross rent – IFRS 16	501 933	454 463	–	–
Dividends received	–	–	267 196	270 984
Recoveries – IFRS 15	141 089	125 740	–	–
	643 022	580 203	267 196	270 984
Straight-line rental income accrual	(17 066)	(4 219)	–	–
	625 956	575 984	267 196	270 984

Refer to note 42 for revenue disaggregation by location and operating segment.

23. OTHER INCOME

	Group	
	2023 R'000	2022 R'000
Management and leasing fees	12 079	9 558
Insurance proceeds from loss of income – COVID-19	–	5 000
Other	388	67
	12 467	14 625

24. NET IMPAIRMENT (LOSSES)/REVERSALS

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Impairment reversals/(losses) of investment in subsidiaries	–	–	14 897	(15 179)
Impairment of investment in associate (note 6)	–	(76 110)	–	–
Expected credit loss allowance adjustment – loans to subsidiaries (note 9)	–	–	–	22 580
	–	(76 110)	14 897	7 401

25. BARGAIN PURCHASE GAIN ON ACQUISITION OF SUBSIDIARY

	Group	
	2023 R'000	2022 R'000
Bargain gain on acquisition of subsidiary (note 41)	464 289	–

26. PROFIT FROM OPERATIONS

	Group	
	2023 R'000	2022 R'000
Net operating profit includes the following items:		
<b>Charges</b>		
Audit fees	1 758	1 591
External auditor – audit fees	1 401	942
External auditor – components	84	382
External auditor – non-audit fees	273	267
Amortisation and depreciation	6 666	2 341
Management fees	1 155	1 243
Staff costs	38 539	35 917

## 27. DIRECTORS' EMOLUMENTS

	Group	
	2023 R'000	2022 R'000
Fees paid to Non-executive Directors		
SB Herring	731	300
– Chairman of Heriot REIT Limited	311	300
– Chairman of Safari Investments RSA Limited	460	–
SJ Blieden	336	300
T Cohen	75	300
R Lockhart-Ross	311	300
JF Finn	158	–
N Ngale	261	250
	1 912	1 450
Fees paid to Executive Directors		
RL Herring – CEO	5 176	5 098
Salaries and allowances	4 276	4 265
Bonus	900	833
D Snoyman – CFO	1 874	–
Salaries and allowances	1 524	–
Bonus	350	–
JA Finn – CFO	2 830	4 587
Salaries and allowances	1 930	3 754
Bonus	900	833
	9 880	9 685

## 28. FINANCE CHARGES

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Secured borrowings	201 874	125 355	–	20 016
Other	827	6 752	–	–
Finance charges for the year	202 701	132 107	–	20 016
Capitalised (note 2)	3 100	–	–	–
	205 801	132 107	–	20 016
Cash component thereof:				
Opening accrued interest	21 748	12 470	–	–
Finance charges	202 701	132 107	–	20 016
Closing accrued interest	(35 525)	(21 748)	–	–
Capitalised	3 100	–	–	–
Cash	192 024	122 830	–	20 016

## 29. FINANCE INCOME

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Interest received – bank	4 783	6 781	3 532	5 545
Related party loans	5 526	5 050	2 923	4 285
Other	438	902	–	2 152
	10 747	12 733	6 455	11 982
Comprising:				
Cash	4 782	7 445	3 532	5 545
Non-cash	5 965	5 288	2 923	6 437
	10 747	12 733	6 455	11 982

## 30. FAIR VALUE ADJUSTMENTS

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Unrealised gain on revaluation of investment property (note 2)	289 306	328 695	–	–
Unrealised loss on revaluation of assets held for sale (note 14)	–	(250)	–	–
Net unrealised gain on revaluation of investment property	289 306	328 695	–	–
Unrealised gain on revaluation of property under development (note 3)	–	10 175	–	–
Fair value adjustment on previously held equity interest (note 6)	(47 707)	–	–	–
Unrealised loss on revaluation of interest rate swap (note 7)	–	5 905	–	–
	241 599	344 775	–	–



### 31. TAXATION

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Normal taxation	–	(580)	–	–
Current	–	–	–	–
Adjustment in respect of the prior year	–	(580)	–	–
Foreign and withholding taxation	3 383	2 074	–	–
Current	3 108	1 862	–	–
Withholding taxation	275	212	–	–
Deferred	944	(1 640)	–	–
Current	944	308	–	–
Reduction in taxation rate	–	(1 948)	–	–
	4 327	(146)	–	–
<b>Reconciliation of taxation charge</b>	<b>27%</b>	<b>28%</b>	<b>27%</b>	<b>28%</b>
Profit before taxation	981 737	614 079	286 449	268 033
Tax at the applicable rate	265 069	171 942	77 341	75 049
Taxation effect of:				
Qualifying distributions	(75 041)	(75 209)	(73 319)	(72 977)
Fair value adjustment on previously held equity interest	12 881	–	–	–
Net impairment (losses)/reversals	–	21 311	(4 022)	(2 072)
Bargain purchase gain on business combination	(125 358)	–	–	–
Fair value adjustments	(78 112)	(96 537)	–	–
Straight-line rental income accrual	4 608	1 181	–	–
Equity-accounted profits (net of taxation)	(21 093)	(32 170)	–	–
Taxable dividends from associate	7 462	10 157	–	–
Namibian subsidiary	329	481	–	–
Tax rate differential	54	269	–	–
Withholding tax on interest	275	212	–	–
Excess dividend not deductible	10 803	1 067	–	–
Non-deductible expenditure	88	191	–	–
Income in advance	3 105	(462)	–	–
Expected credit loss allowance	(428)	74	–	–
Prepayments	(265)	356	–	–
Reduction in taxation rate (28% to 27%)	–	(1 948)	–	–
Adjustment in respect of prior year	–	(580)	–	–
Head office depreciation added back	136	–	–	–
Other	143	–	–	–
	4 327	(146)	–	–

### 32. EARNINGS AND HEADLINE EARNINGS

	Group			
	2023		2022	
	Gross R'000	Net R'000	Gross R'000	Net R'000
<b>Reconciliation of basic earnings to headline earnings</b>				
Profit attributable to Heriot shareholders	964 022	964 022	609 579	609 579
Adjustments to basic earnings are as follows:	(739 586)	(732 575)	(354 036)	(354 036)
Fair value adjustments: investment properties (note 2)	(289 306)	(282 295)	(338 870)	(342 777)
Fair value adjustments of investment property: equity-accounted investments	(33 698)	(33 698)	(11 260)	(11 260)
Bargain purchase on acquisition of subsidiary (note 41)	(464 289)	(464 289)	–	–
Bargain purchase on acquisition of associate (note 6)	–	–	(76 109)	(76 109)
Fair value adjustment on previously held equity interest (note 6)	47 707	47 707	–	–
Impairment of associate (note 6)	–	–	76 110	76 110
Headline earnings attributable to Heriot shareholders	231 447			255 543
Actual number of shares in issue*	255 395 858			255 395 858
Weighted average number of shares in issue	255 395 858			255 395 858
There are no dilutive instruments in issue.				
Basic earnings per share (cents)		377,46		238,68
Headline earnings per share (cents)		90,62		100,06

\* Excludes 900 000 treasury shares.

33. NOTES TO THE CASH FLOW STATEMENT

33.1 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	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
<b>33.2 Cash generated from/(used in) operations</b>				
Profit before taxation	981 737	614 079	286 449	268 033
Adjusted for:				
Non-cash items	(760 278)	(376 999)	(281 674)	(278 385)
Investment properties and property under development (note 30)	(289 306)	(338 870)	–	–
Unrealised loss on revaluation of interest rate swap (note 7)	–	(5 905)	–	–
Net impairment (losses)/reversals (note 24)	–	76 110	(14 897)	(7 401)
Fair value adjustment on previously held equity interest (note 30)	47 707	–	–	–
Bargain purchase gain on business combination (note 41)	(464 289)	–	–	–
Straight-line rental income accrual (note 2)	17 066	4 219	–	–
Dividends received	–	–	(267 196)	(270 984)
Equity-accounted profits (net of taxation) (note 6)	(78 122)	(114 894)	–	–
Non-cash expenses	–	–	419	–
Depreciation and amortisation	6 666	2 341	–	–
Finance charges	202 701	132 107	–	20 016
Finance income	(10 747)	(12 733)	(6 455)	(11 982)
Operating profit before working capital changes	413 413	356 454	(1 680)	(2 318)
Working capital changes	40 166	8 981	–	(9 654)
Trade and other receivables (note 33.3)	18 309	8 799	–	20
Trade and other payables (note 33.4)	21 857	182	–	(9 674)
<b>Cash generated from operations</b>	<b>453 579</b>	<b>365 435</b>	<b>(1 680)</b>	<b>(11 972)</b>
<b>33.3 Trade and other receivables</b>				
At the beginning of the year	45 283	35 000	–	20
Non-cash – accrued dividend on Safari shares	–	19 082	–	–
Transfer to held for sale (note 14)	(2 852)	–	–	–
Business combination (note 41)	23 126	–	–	–
At the end of the year	(47 248)	(45 283)	–	–
Movement for the year	18 309	8 799	–	20
<b>33.4 Trade and other payables</b>				
At the beginning of the year	(65 503)	(65 321)	–	(9 674)
Per statement of financial position	(87 251)	(77 791)	–	(9 674)
Non-cash – interest on secured liabilities accrued at the beginning of the year	21 748	12 470	–	–
At the end of the year	87 360	65 503	–	–
Per statement of financial position	154 641	87 251	58	–
Transfer to held for sale (note 14)	212	–	–	–
Non-cash expenses	–	–	(58)	–
Business combination (note 41)	(31 968)	–	–	–
Non-cash – interest on secured liabilities accrued at the end of the year	(35 525)	(21 748)	–	–
	21 857	182	–	(9 674)

33. NOTES TO THE CASH FLOW STATEMENT continued

	Group	
	2023 R'000	2022 R'000
<b>33.5 Taxation paid</b>		
Taxation (payable)/in advance at the beginning of the year	6	(29)
Taxation for the year	(3 383)	(1 494)
Tax payable/(in advance) at the end of the year	402	(6)
Taxation paid during the year	(2 975)	(1 529)
<b>33.6 Acquisitions and improvements capitalised to investment property</b>		
Acquisitions and improvements capitalised to investment property (note 2)	176 029	283 286
Costs incurred in respect of property under development (note 3)	2 427	9 846
	178 456	293 132
Assets disposed in terms of an asset swap arrangement (note 33.7)	–	(106 000)
Cash portion of acquisitions and expenditure capitalised to investment property	178 456	187 132
<b>33.7 Disposals of investment property</b>		
Carrying value of investment property disposed (notes 2, 14)	–	189 250
Assets disposed in terms of an asset swap arrangement (note 33.6)	–	(106 000)
Cash proceeds on disposal of investment properties	–	83 250

	Group		
	Long-term borrowings R'000	Short-term borrowings R'000	Total R'000
<b>33.8 Reconciliation of liabilities arising from financing activities</b>			
Balance as at 30 June 2021	1 397 265	431 024	1 828 289
Proceeds	467 900	–	467 900
Repayment	(80 317)	–	(80 317)
Reclassification	183 969	(183 969)	–
Balance as at 30 June 2022	1 968 817	247 055	2 215 872
Repayment	(424 856)	–	(424 856)
Business combination (note 41)	704 604	608 926	1 313 530
Transfer to held for sale (note 14)	(70 830)	–	(70 830)
Proceeds	800 332	–	800 332
Refinance	247 055	(247 055)	–
Balance as at 30 June 2023	3 225 122	608 926	3 834 048

33. NOTES TO THE CASH FLOW STATEMENT continued

	Company		
	Long-term borrowings R'000	Short-term borrowings R'000	Total R'000
33.8 Reconciliation of liabilities arising from financing activities continued			
Balance as at 30 June 2021	740 045	–	740 045
Repayment	(48)	–	(48)
Secured liabilities refinanced by subsidiary companies	(739 997)	–	(739 997)
Balance as at 30 June 2022	–	–	–
No movement	–	–	–
Balance as at 30 June 2023	–	–	–

34. COMMITMENTS

At 30 June 2023, the Group's capital commitments of R408,957 million comprise improvements to investment property. R241,805 million of capital commitments relate to assets held for sale at 30 June 2023. These commitments have been authorised and committed by both Heriot and Safari's Boards.

These costs will be funded by the Group's cash reserves together with unutilised and committed credit facilities.

	Group	
	2023 R'000	2022 R'000
Operating expense commitments		
The Company has entered into various service contracts for the cleaning and general maintenance of the property portfolio. The operating expense commitments payable to service providers in future years are as follows:		
– Due within one year	21 833	19 409
– Due within two to five years	–	–
	21 833	19 409

35. MINIMUM LEASE PAYMENTS RECEIVABLE

	Group	
	2023 R'000	2022 R'000
Minimum lease payments comprise 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	708 543	395 929
– Receivable one and two years	595 066	272 794
– Receivable two and three years	448 860	208 350
– Receivable three and four years	323 602	151 961
– Receivable four and five years	213 193	105 410
– Receivable beyond five years	900 053	223 043
	3 189 317	1 357 487

36. 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.

Relationships are as follows:

Majority shareholder	Heriot Investments Proprietary Limited
Subsidiaries	Refer to note 5
Associates	Refer to note 6
JCB Herring	Shareholder
Thibault Investments Proprietary Limited	Directorship
14th Avenue Investments Proprietary Limited	Directorship

Related parties with whom the Company transacted during the year were:

	Company	
	2023 R'000	2022 R'000
Related party balances		
Dividends receivable from subsidiaries	71 194	35 449
Bait Away Trading Proprietary Limited	1 517	1 787
Crosize Proprietary Limited	9 881	9 091
Heriot Properties Proprietary Limited	47 407	–
Heriot Properties International Proprietary Limited	–	8 281
Heriot Trust No. 1	706	2 849
Heriot Trust No. 3	46	–
Moditouch Proprietary Limited	675	787
Phokeng Mall Proprietary Limited	10 962	10 079
Terrace Drive Properties 34 Proprietary Limited	–	2 575



36. RELATED PARTIES AND RELATED PARTY TRANSACTIONS continued

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
<b>Amount included in other financial assets</b>				
<b>Non-current</b>	<b>74 425</b>	34 219	<b>34 116</b>	34 219
Heriot Investments Proprietary Limited	<b>40 309</b>	–	–	–
Loans to participants of employee share scheme	<b>34 116</b>	34 219	<b>34 116</b>	34 219
RL Herring – CEO	<b>29 007</b>	29 092	<b>29 007</b>	29 092
Other	<b>5 109</b>	5 127	<b>5 109</b>	5 127
<b>Current</b>	<b>–</b>	49 573	<b>46 397</b>	–
Crosize Proprietary Limited	<b>–</b>	–	<b>23 950</b>	–
Heriot Properties West Proprietary Limited	<b>–</b>	–	<b>2 652</b>	–
Heriot Properties Proprietary Limited	<b>–</b>	–	<b>19 795</b>	–
The Gusi Trust – beneficiaries include SB Herring	<b>–</b>	49 573	<b>–</b>	–
<b>Amount included in other financial liabilities</b>	<b>40 309</b>	–	<b>13 518</b>	–
Heriot Investments Proprietary Limited – deferred capital proceeds	<b>40 309</b>	–	<b>–</b>	–
Fin Properties 107 Proprietary Limited	<b>–</b>	–	<b>1 036</b>	–
Heriot Properties International Proprietary Limited	<b>–</b>	–	<b>12 466</b>	–
Tiger Stripes Investments 31 Proprietary Limited	<b>–</b>	–	<b>16</b>	–
<b>Amount included in trade and other receivables/(payables)</b>				
JCB Herring – shareholder	<b>553</b>	508	<b>553</b>	508
Thibault Investments Proprietary Limited	<b>–</b>	–	<b>(58)</b>	–
<b>Related party transactions</b>				
<b>Interest received</b>				
The Gusi Trust	<b>–</b>	3 136	<b>–</b>	–
Loans to participants of employee share scheme	<b>2 923</b>	2 152	<b>2 923</b>	2 152
RL Herring	<b>2 485</b>	1 828	<b>2 485</b>	1 828
Other	<b>438</b>	324	<b>438</b>	324
JCB Herring	<b>46</b>	86	<b>–</b>	–
Chasie Investments Proprietary Limited	<b>–</b>	–	<b>–</b>	1 045
Heriot Properties International Proprietary Limited	<b>–</b>	–	<b>–</b>	2 686
Heriot Trust No. 3	<b>–</b>	–	<b>–</b>	554
<b>Other income (management fees and letting commission)</b>				
14th Avenue Investments Proprietary Limited	<b>2 645</b>	–	<b>–</b>	–

Compensation of key management is by way of salary and bonus only, details of which are disclosed in note 27.

37. FINANCIAL RISK MANAGEMENT

The Group and Company'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 and Company have exposure to the following risks from their 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.

37.1 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 2023</b>				
Interest-bearing borrowings – capital	608 926	3 225 122	–	3 834 048
Lease liabilities	1 450	5 208	–	6 658
Interest accrual on interest-bearing borrowings	381 473	457 022	–	838 495
Trade and other payables	113 869	–	–	113 869
	<b>1 105 718</b>	<b>3 687 352</b>	<b>–</b>	<b>4 793 070</b>
<b>As at 30 June 2022</b>				
Interest-bearing borrowings – capital	247 055	1 968 816	–	2 215 871
Interest accrual on interest-bearing borrowings	142 925	267 552	–	410 477
Trade and other payables	87 251	–	–	87 251
	<b>477 231</b>	<b>2 236 368</b>	<b>–</b>	<b>2 713 599</b>

	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 2023</b>				
Other financial liabilities	13 518	–	–	13 518
Trade and other payables	58	–	–	58
	<b>13 576</b>	<b>–</b>	<b>–</b>	<b>13 576</b>
<b>As at 30 June 2022</b>				
Other financial liabilities	30 243	–	–	30 243
	<b>30 243</b>	<b>–</b>	<b>–</b>	<b>30 243</b>

37. FINANCIAL RISK MANAGEMENT continued  
37.2 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 2023</b>			
<b>Financial assets</b>			
Financial assets – non-current	74 425	–	74 425
Derivative financial instrument – non-current	–	1 017	1 017
Derivative financial instrument – current	–	1 615	1 615
Trade and other receivables	31 624	–	31 624
Cash and cash equivalents	45 695	–	45 695
	151 744	2 632	154 376
<b>Financial liabilities</b>			
Interest-bearing borrowings	3 834 048	–	3 834 048
Trade and other payables	113 869	–	113 869
	3 947 917	–	3 947 917
<b>As at 30 June 2022</b>			
<b>Financial assets</b>			
Financial assets – non-current	34 219	–	34 219
Trade and other receivables	36 592	–	36 592
Financial assets – current	49 573	–	49 573
Cash and cash equivalents	122 959	–	122 959
	243 343	–	243 343
<b>Financial liabilities</b>			
Interest-bearing borrowings	2 215 871	–	2 215 871
Trade and other payables	70 357	–	70 357
	2 286 228	–	2 286 228

37. FINANCIAL RISK MANAGEMENT continued  
37.2 Categories of financial instruments continued

	Company		
	At amortised cost R'000	At fair value through profit or loss R'000	Total R'000
<b>As at 30 June 2023</b>			
<b>Financial assets</b>			
Financial assets – non-current	34 116	–	34 116
Financial assets – current	117 591	–	117 591
Cash and cash equivalents	12 197	–	12 197
	163 904	–	163 904
<b>Financial liabilities</b>			
Other financial liabilities	13 518	–	13 518
Trade and other payables	58	–	58
	13 576	–	13 576
<b>As at 30 June 2022</b>			
<b>Financial assets</b>			
Financial assets – non-current	34 219	–	34 219
Financial assets – current	35 449	–	35 449
Cash and cash equivalents	110 553	–	110 553
	180 221	–	180 221
<b>Financial liabilities</b>			
Other financial liabilities	30 243	–	30 243
	30 243	–	30 243

37.3 Interest rate risk

At the reporting date, majority borrowings of the Group are at floating interest rates with 10% hedged as a result of the acquisition of the subsidiary (note 41). The Group is therefore exposed to interest rate risk through its interest-bearing borrowings and variable rate cash balances. 97,1% of interest-bearing debt is subject to interest at a three-month JIBAR rate, essentially fixing interest rates for intervals of three months. Further, surplus funds are invested against revolver debt facilities, thereby reducing the Group's exposure to interest rate increases. Management, together with the Board, regularly monitors and assesses interest rate risk and will put appropriate hedging strategies in place at a suitable time in the future.

An increase/decrease of 1% in the prime interest rate for the year would have increased/decreased the interest expense by R23,4 million (2022: R19,7 million) in respect of the floating portion of the debt.

37. FINANCIAL RISK MANAGEMENT continued

37.4 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 R'000	Amortised cost R'000
<b>As at 30 June 2023</b>				
Financial assets	9	74 425	–	74 425
Trade and other receivables	10	34 812	(3 188)	31 624
Cash and cash equivalents	13	45 695	–	45 695
		154 932	(3 188)	151 744
<b>As at 30 June 2022</b>				
Financial assets	9	83 792	–	83 792
Trade and other receivables	10	41 369	(4 777)	36 592
Cash and cash equivalents	13	122 959	–	122 959
		248 120	(4 777)	243 343

		Company		
	Note	Gross carrying amount R'000	Credit loss allowance R'000	Amortised cost R'000
<b>As at 30 June 2023</b>				
Financial assets	9	34 116	–	34 116
Dividends receivable from subsidiaries	11	71 194	–	71 194
Cash and cash equivalents	13	12 197	–	12 197
		117 507	–	117 507
<b>As at 30 June 2022</b>				
Financial assets	9	34 219	–	34 219
Dividends receivable from subsidiaries	11	35 449	–	35 449
Cash and cash equivalents	13	110 553	–	110 553
		180 221	–	180 221

37.5 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 assets or liabilities.

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

Level 3 – Fair value is determined through the use of valuation techniques using significant inputs (note 2 for assumptions applied to valuation of investment property).

37. FINANCIAL RISK MANAGEMENT continued

37.5 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 2023</b>				
<b>Assets</b>				
Investment properties (note 2)	8 891 700	–	–	8 891 700
Property under development (note 3)	91 345	–	–	91 345
Non-current assets held for sale (note 14)	275 206	–	–	275 206
Derivative instrument (note 7)	2 632	–	2 632	–
	9 260 883	–	2 632	9 258 251

Group				
	Fair value R'000	Level 1 R'000	Level 2 R'000	Level 3 R'000
<b>As at 30 June 2022</b>				
<b>Assets</b>				
Investment properties (note 2)	4 955 600	–	–	4 955 600
Property under development (note 3)	129 263	–	–	129 263
	5 084 863	–	–	5 084 863

38. CAPITAL MANAGEMENT

In terms of the memorandum of incorporation, the Company has limited consolidated borrowings to 60% of consolidated assets. However, to manage the Group's risk, the Board aims to limit borrowings to below 45% of property assets. As at the reporting date, the Group's loan-to-value ratio, net of cash, was:

Group		
	2023 R'000	2022 R'000
Property assets	9 213 528	5 440 997
Investment property	8 891 700	4 955 600
Property under development	91 345	129 263
Non-current assets held for sale (less liabilities)	204 165	–
Owner-occupied property	22 183	22 685
Investment in associates	4 135	333 449
Interest-bearing borrowings	3 834 048	2 215 871
Loan-to-value (%)	41,6	40,7
Interest-bearing borrowings net of cash	3 788 353	2 092 912
Loan-to-value (net of cash) (%)	41,1	38,5



39. EVENTS AFTER THE BALANCE SHEET DATE

The Directors are not aware of any material events which occurred after the reporting date and up to the date of this report.

40. 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. While the Group's current liabilities exceed its current assets because of maturing facilities at the reporting date, refinancing discussions with existing and new lenders for these facilities are at an advanced stage and management is confident that the maturing facilities will be refinanced on favourable terms before they fall due. Further, the Group has R365,3 million surplus cash invested in revolver facilities at year end that can be used to meet financial obligations at the reporting date.

On this basis, the Directors believe that the Group and Company have adequate cash resources to continue as a going concern for the foreseeable future and accordingly, the financial statements have been prepared on a going concern basis.

41. BUSINESS COMBINATION

At 31 March 2023, the Company's interest in Safari increased to an effective holding of 47,1%. As this holding is deemed to be a controlling interest (note 6.1.1), Heriot will consolidate its interest in Safari from that date.

The assets and liabilities arising from the acquisition are as follows:

	Group	
	2023 R'000	2022 R'000
<b>Assets</b>	<b>3 793 341</b>	–
Investment property at fair value	3 535 800	–
Investment property – closing carrying value	3 429 996	–
Straight-line income accrual	105 804	–
Investment held for sale	184 900	–
Property, plant and equipment	603	–
Investment in associates and joint ventures	1 500	–
Right-of-use assets	3 997	–
Derivatives	2 632	–
Inventories	29 869	–
Trade and other receivables	23 126	–
Cash and cash equivalents	10 914	–
<b>Liabilities</b>	<b>1 364 272</b>	–
Interest-bearing borrowings	1 313 530	–
Deferred tax – net liability	13 249	–
Trade and other payables	31 969	–
Lease liabilities	5 524	–
<b>Fair value of net assets acquired</b>	<b>2 429 069</b>	–
Non-controlling interest	(1 284 387)	–
<b>Fair value of Heriot's share of net assets acquired</b>	<b>1 144 682</b>	–
Carrying amount of investment in associate (note 6)	(680 393)	–
<b>Bargain purchase gain</b>	<b>464 289</b>	–

The investment in Safari was funded by debt facilities and Heriot's own cash resources.

A bargain gain arose due to the fair value of the assets acquired exceeding the market value of the previously held equity-accounted investment. This gain arose when control was obtained and further highlights Heriot's view of the unrealised value of Safari. The benefits of synergies between both companies will further enhance revenue growth, future developments and streamline operating costs.

41. BUSINESS COMBINATION continued

	Group	
	2023 R'000	2022 R'000
<b>Net cash inflow on acquisition</b>		
Cash and cash equivalents acquired	10 914	–
<b>Included in the consolidated results for the year</b>		
Equity-accounted profits	80 450	–
Dividends received from previously held equity interest	27 488	–
<b>Had the business combination been included for the entire year</b>		
Group profit after tax	322 912	–
Group turnover	456 899	–

42. SEGMENTAL ANALYSIS

Sector	Group						
	Retail R'000	Industrial R'000	Office R'000	Specia- lised* R'000	Residential R'000	Other R'000	Total R'000
<b>Year ended 30 June 2023</b>							
Gross lettable area ("GLA") (m²)	313 261	275 020	19 169	*	10 270	18 665	636 385
Contractual rental income	259 300	171 521	35 812	8 543	26 757	–	501 933
Recoveries	70 575	58 830	8 955	666	2 063	–	141 089
Straight-lining of rental income	(3 049)	(8 918)	(4 812)	(456)	169	–	(17 066)
Total revenue	326 826	221 433	39 955	8 753	28 989	–	625 956
Property expenses	(88 228)	(77 264)	(16 941)	(399)	(15 360)	(3 840)	(202 032)
Net property income	238 598	144 169	23 014	8 354	13 629	(3 840)	423 924
Other income and equity- accounted profit/(losses)	–	–	–	–	–	90 589	90 589
Bargain purchase gain	–	–	–	–	–	464 289	464 289
Fair value adjustment on previously held equity interest and net impairment reversals	–	–	–	–	–	(47 707)	(47 707)
Administration expenses	–	–	–	–	–	(46 710)	(46 710)
Net finance charges	–	–	–	–	–	(191 954)	(191 954)
Change in fair value	161 501	60 686	(1 622)	17 856	50 885	–	289 306
<b>Net profit before taxation</b>	<b>400 099</b>	<b>204 855</b>	<b>21 392</b>	<b>26 210</b>	<b>64 514</b>	<b>264 667</b>	<b>981 737</b>
Investment property	6 296 600	1 777 000	324 000	194 100	266 000	34 000	8 891 700
Non-current held for sale	184 900	90 306	–	–	–	–	275 206
Property under development	–	–	–	–	–	91 345	91 345
Property, plant and equipment	766	–	108	–	7 435	22 942	31 251
Trade and other receivables	36 053	4 624	561	–	2 651	3 359	47 248
Other assets	–	–	–	–	–	160 753	160 753
<b>Total assets</b>	<b>6 518 319</b>	<b>1 871 930</b>	<b>324 669</b>	<b>194 100</b>	<b>276 086</b>	<b>312 399</b>	<b>9 497 503</b>
Trade and other payables	84 277	13 354	13 285	5 026	938	48 539	165 419
Non-current liabilities held for sale	–	71 041	–	–	–	–	71 041
Other liabilities	–	–	–	–	–	3 956 568	3 956 568
<b>Total liabilities</b>	<b>84 277</b>	<b>84 395</b>	<b>13 285</b>	<b>5 026</b>	<b>938</b>	<b>4 005 107</b>	<b>4 193 028</b>

\* The specialised property comprises 8 382ha 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.

42. SEGMENTAL ANALYSIS continued

Sector	Group						
	Retail R'000	Industrial R'000	Office R'000	Specia- lised* R'000	Residential R'000	Other R'000	Total R'000
<b>Year ended 30 June 2022</b>							
GLA (m²)	123 219	275 020	19 169	*	9 825	8 222	435 455
Contractual rental income	233 435	146 388	47 111	8 020	19 180	329	454 463
Recoveries	66 155	46 081	11 496	88	1 737	183	125 740
Straight-lining of rental income	(3 427)	3 302	(3 993)	(367)	266	–	(4 219)
Total revenue	296 163	195 771	54 614	7 741	21 183	512	575 984
Property expenses	(89 019)	(70 413)	(19 044)	(613)	(10 159)	(3 370)	(192 618)
Net property income	207 144	125 358	35 570	7 128	11 024	(2 858)	383 366
Other income and equity- accounted profit	–	–	–	–	–	129 519	129 519
Impairment of investment associate	–	–	–	–	–	(76 110)	(76 110)
Administration expenses	–	–	–	–	–	(48 097)	(48 097)
Net finance charges	–	–	–	–	–	(119 374)	(119 374)
Change in fair value	113 223	203 066	(11 495)	18 167	5 734	16 080	344 775
<b>Net profit before taxation</b>	<b>320 367</b>	<b>328 424</b>	<b>24 075</b>	<b>25 295</b>	<b>16 758</b>	<b>(100 840)</b>	<b>614 079</b>
Investment property	2 544 900	1 756 500	303 500	176 700	174 000	–	4 955 600
Non-current held for sale	–	–	–	–	–	–	–
Property under development	–	–	–	–	–	129 263	129 263
Property, plant and equipment	32	–	265	–	2 456	23 524	26 277
Trade and other receivables	11 161	10 188	683	–	610	22 641	45 283
Other assets	–	–	–	–	–	540 206	540 206
<b>Total assets</b>	<b>2 556 093</b>	<b>1 766 688</b>	<b>304 448</b>	<b>176 700</b>	<b>177 066</b>	<b>715 635</b>	<b>5 696 629</b>
Trade and other payables	41 911	8 901	3 948	4 450	3 883	34 088	97 181
Other liabilities	–	–	–	–	–	2 277 964	2 277 964
<b>Total liabilities</b>	<b>41 911</b>	<b>8 901</b>	<b>3 948</b>	<b>4 450</b>	<b>3 883</b>	<b>2 312 052</b>	<b>2 375 145</b>

\* The specialised property comprises 8 382ha 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.

42. SEGMENTAL ANALYSIS continued

Geographical	Group								
	Gauteng R'000	Western Cape R'000	KwaZulu- Natal R'000	North West R'000	Mpuma- langa R'000	Limpopo R'000	Free State R'000	Namibia R'000	Total R'000
<b>Year ended 30 June 2023</b>									
GLA (m²)	368 434	92 532	42 003	26 579	26 459	27 469	17 906	35 003	636 385
Investment property	5 458 200	819 400	394 100	369 000	535 000	725 000	189 000	402 000	8 891 700
Property under development	–	91 345	–	–	–	–	–	–	91 345
Non-current assets held for sale	184 900	90 306	–	–	–	–	–	–	275 206
<b>Total property portfolio</b>	<b>5 643 100</b>	<b>1 001 051</b>	<b>394 100</b>	<b>369 000</b>	<b>535 000</b>	<b>725 000</b>	<b>189 000</b>	<b>402 000</b>	<b>9 258 251</b>
Contractual rental income	228 610	81 938	33 516	43 887	42 848	42 207	16 171	12 756	501 933
Recoveries	52 509	35 162	6 112	16 387	12 801	10 769	7 509	(160)	141 089
	281 119	117 100	39 628	60 274	55 649	52 976	23 680	12 596	643 022
<b>Year ended 30 June 2022</b>									
GLA (m²)	209 354	94 777	42 003	26 579	16 257	15 079	17 906	13 500	435 455
Investment property	2 292 001	770 000	374 900	354 400	400 300	434 000	182 000	148 000	4 955 600
Property under development	38 000	91 263	–	–	–	–	–	–	129 263
<b>Total property portfolio</b>	<b>2 330 000</b>	<b>861 263</b>	<b>374 900</b>	<b>354 400</b>	<b>400 300</b>	<b>434 000</b>	<b>182 000</b>	<b>148 000</b>	<b>5 084 863</b>
Contractual rental income	215 426	80 807	24 173	40 027	36 089	40 534	7 411	9 996	454 463
Recoveries	49 359	34 792	2 861	15 146	11 037	9 247	3 298	–	125 740
	264 785	115 599	27 034	55 173	47 126	49 781	10 709	9 996	580 203

ANNEXURE 1

ADDITIONAL DISCLOSURES IN TERMS OF SA REIT  
BEST PRACTICE RECOMMENDATIONS (“SA REIT BPR”)

1. SA REIT BPR FUNDS FROM OPERATIONS

	Group	
	30 June 2023 R'000	30 June 2022 R'000
Profit per IFRS statement of comprehensive income attributable to equity holders of the Company	964 022	609 579
Adjusted for:		
Accounting/specific adjustments		
Fair value adjustment to investment properties	(289 306)	(338 870)
Straight-line rental income adjustment	17 066	4 219
Bargain purchase gain on business combination	(464 289)	–
Depreciation of owner-occupied property	504	504
Deferred taxation movement	944	(1 640)
Adjustments to dividends from equity interests held	35 600	(3 348)
Hedging items		
Fair value adjustment to derivative instruments	–	(5 905)
Other adjustments		
Non-controlling interests in respect of the above adjustments	7 011	(3 907)
	271 552	260 632
Number of shares in issue at the reporting date*	255 395 858	255 395 858
Distribution per share (cents)	106,33	102,05

\* Excluding the 900 000 treasury shares in issue.

2. SA REIT BPR COST-TO-INCOME RATIO

	Group	
	30 June 2023 R'000	30 June 2022 R'000
Per IFRS income statement		
Property expenses including municipal expenses and depreciation	202 032	192 618
Administrative expenses and corporate costs	36 772	38 046
Per statement of comprehensive income	46 710	48 097
Adjust for:		
Salary recoveries included in sundry income	(9 434)	(9 547)
Depreciation charged on owner-occupied property	(504)	(504)
Total expenses	238 804	230 664
Contractual rental income and utility and operating recoveries, excluding straight-line rental income	643 022	580 203
Cost-to-income ratio (%)	37,14	39,76
Administrative cost-to-income ratio (%)	5,72	6,56

3. SA REIT BPR VACANCY RATE

	Group	
	30 June 2023 R'000	30 June 2022 R'000
GLA of property portfolio (m²)	636 385	435 455
Vacant GLA (m²)	15 561	12 994
Vacancy rate (%)	2,4	3,0

4. SA REIT BPR LOAN-TO-VALUE

	Group	
	30 June 2023 R'000	30 June 2022 R'000
Interest-bearing liabilities	3 834 048	2 215 871
Less: Cash and cash equivalents	(45 695)	(122 959)
Less: Derivative financial instruments	(2 632)	–
Net debt	3 785 721	2 092 912
Investment property	8 891 700	4 955 600
Property under development	91 345	129 263
Non-current assets and liabilities held for sale	204 165	–
Owner-occupied property	22 184	22 961
Investments in associates	4 135	333 449
Carrying amount of property-related assets	9 213 529	5 441 273
Loan-to-value (%)	41,09	38,46

ANNEXURE 1

ADDITIONAL DISCLOSURES IN TERMS OF SA REIT BEST PRACTICE RECOMMENDATIONS (“SA REIT BPR”) continued

5. SA REIT BPR NET ASSET VALUE (“NAV”)

	Group	
	30 June 2023 R'000	30 June 2022 R'000
Reported NAV	3 953 591	3 279 093
Adjusted for:		
Dividend to be declared	(271 552)	(260 632)
Deferred taxation	76 285	62 092
<b>SA REIT BPR NAV</b>	<b>3 758 324</b>	<b>3 080 553</b>
Number of shares in issue	255 395 858	255 395 858
NAV per share (cents)	1 471,57	1 206,19

6. SA REIT BPR COST OF DEBT

	Group	
	30 June 2023 %	30 June 2022 %
<i>Variable interest rate borrowings</i>		
Floating reference rate plus weighted average margin	8,61	5,73
<i>Fixed interest rate borrowings</i>		
Weighted average fixed rate	–	0,24
Pre-adjusted weighted average cost of debt	8,61	5,96
Amortised transaction costs imputed into the effective interest rate	0,07	0,32
<b>All-in weighted average cost of debt</b>	<b>8,68</b>	<b>6,29</b>

136	Shareholders' analysis
137	Notice of annual general meeting
141	Form of proxy
143	Notes to the form of proxy
144	Application form for electronic participation at the annual general meeting
146	Glossary
ibc	Corporate information
ibc	Shareholders' diary

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.

Shareholder  
information



# SHAREHOLDERS’ ANALYSIS

Stakeholders play a crucial role at Heriot, with their risks and concerns being meticulously considered during the process of reviewing and enhancing the organisation’s strategy.

**Company:** Heriot REIT Limited  
Register date: 30 June 2023  
Issued share capital: 256 295 858

	Number of shareholdings	%	Number of shares	%
<b>Shareholder spread</b>				
1 – 1 000 shares	29	65,90	3 180	0,00
1 001 – 10 000 shares	2	4,55	3 747	0,00
10 001 – 100 000 shares	2	4,55	200 000	0,08
100 001 – 1 000 000 shares	3	6,82	1 570 000	0,61
1 000 001 shares and over	8	18,18	254 518 931	99,31
<b>Total</b>	<b>44</b>	<b>100,00</b>	<b>256 295 858</b>	<b>100,00</b>
<b>Distribution of shareholders</b>				
Banks/brokers	1	2,27	270 000	0,11
Close corporations	2	4,55	1 171 421	0,46
Individuals	34	77,27	9 869 889	3,85
Private companies	6	13,64	244 084 548	95,24
Treasury stock	1	2,27	900 000	0,35
<b>Total</b>	<b>44</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>				
Directors of the Company	3	6,82	236 967 522	92,46
Treasury stock	1	2,27	900 000	0,35
<b>Public shareholders</b>	<b>40</b>	<b>90,91</b>	<b>18 428 336</b>	<b>7,19</b>
<b>Total</b>	<b>44</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>

Note there are no shareholders, other than directors, who are directly or indirectly beneficially interested in 5% or more of Heriot’s shares.

# 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 OF THE ANNUAL GENERAL MEETING OF SHAREHOLDERS

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

Notice is hereby given to the shareholders of the Company as at Friday, 20 October 2023, being the record date to receive the annual general meeting notice in terms of Section 59(1)(a) of the Companies Act No 71 of 2008 (“Companies Act”), that the annual general meeting of the Company will be a hybrid meeting and held via Microsoft Teams, as well as in person, at 10:00 on Wednesday, 6 December 2023 at the offices of the Company situated at Suite 1 – Ground Floor, 3 Melrose Boulevard, Melrose North 2196, Johannesburg 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, 1 December 2023, 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, 28 November 2023.

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, 4 December 2023.

## 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.

## 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 participate, speak and vote in his/her stead physically. A proxy need not be a shareholder of the company.

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, 4 December 2023 by:

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

### 1. Ordinary resolutions

To consider and, if deemed fit, to pass, with or without modification, the following ordinary resolutions. The percentage of voting rights that will be required for the adoption of each ordinary resolution is the support of more than 50% (fifty percent) of the voting rights exercised on the resolution. In the case of ordinary resolutions number 10 and number 11, the JSE Listings Requirements prescribe a 75% (seventy-five percent) majority vote.

#### 1.1 Ordinary resolution number 1: adoption of the annual financial statements

“Resolved that the annual financial statements of the Company for the year ended 30 June 2023, incorporating the reports of the auditor, the Directors, the Audit and Risk Committee and the Social and Ethics Committee, which will be presented to shareholders as required in terms of Section 30(3)(d) of the Companies Act, be and are hereby adopted.”

#### 1.2 Ordinary resolution number 2: appointment/election of Directors

##### 1.2.1 Re-election of Selwyn Joel Blieden as a Non-executive Director

“Resolved to re-elect Selwyn Joel Blieden as a Director of the Company who, in terms of Article 26.12 of the Company’s memorandum of incorporation, retires by rotation at this annual general meeting but, being eligible to do so, offers himself for re-election.”

**Note:** The *curriculum vitae* of Selwyn Joel Blieden is provided on page 47 of the integrated report.

##### 1.2.2 Re-election of Nelson Abram Ngale as a Non-executive Director

“Resolved to re-elect Nelson Abram Ngale as a Director of the Company who, in terms of Article 26.12 of the Company’s

memorandum of incorporation, retires by rotation at this annual general meeting but, being eligible to do so, offers himself for re-election.”

**Note:** The *curriculum vitae* of Nelson Abram Ngale is provided on page 47 of the integrated report.

**1.2.3 Re-election of Robin Lockhart-Ross as a Non-executive Director**

“Resolved to re-elect Robin Lockhart-Ross as a Director of the Company who, in terms of Article 26.12 of the Company’s memorandum of incorporation, retires by rotation at this annual general meeting but, being eligible to do so, offers himself for re-election.”

**Note:** The *curriculum vitae* of Robin Lockhart-Ross is provided on page 47 of the integrated report.

**1.3 Ordinary resolution number 3: Appointments to the Audit and Risk Committee**

“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:

**1.3.1 Selwyn Joel Blieden** (*Chairman of the Audit and Risk Committee*) (*If re-elected in terms of ordinary resolution 1.2.1*);

**1.3.2 Nelson Abram Ngale** (*If re-elected in terms of ordinary resolution 1.2.2*); and

**1.3.3 Robin Lockhart-Ross** (*If re-elected in terms of ordinary resolution 1.2.3*).

**Note:** Brief *curriculum vitae* of Selwyn Joel Blieden, Nelson Abram Ngale and Robin Lockhart-Ross are set out on page 47 of the integrated report of which this notice forms part.

**1.4 Ordinary resolution number 4: Reappointment of the auditor**

“Resolved that BDO South Africa Incorporated, together with Vianca Pretorius as the designated auditor, be and are hereby reappointed as the auditor of the Company, with effect from the conclusion of this annual general meeting.”

The Audit and Risk Committee has recommended BDO South Africa Incorporated for appointment as the 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, Vianca Pretorius, in accordance with paragraph 3.84(g)(iii) of the JSE Listings Requirements.

**1.5 Non-binding advisory votes**

In line with the King IV™ Report on Corporate Governance for South Africa, 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.

**1.5.1 Non-binding advisory resolution number 1: Approval of the remuneration policy**

“Resolved that, through a non-binding advisory vote, the Company’s remuneration policy, a summary of which is disclosed on page 51 of the integrated report, be and is hereby approved.”

**1.5.2 Non-binding advisory resolution number 2: Approval of the remuneration implementation report**

“Resolved that, through a non-binding advisory vote, the Company’s remuneration implementation report, as disclosed on page 52 of the integrated report, be and is hereby approved.”

**1.6 Ordinary resolution number 5: 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 must be made to persons qualifying as public shareholders and not to related parties as defined in the JSE Listings Requirements provided that if the company undertakes an equity raise via a bookbuild process, shares may be allotted and issued to related parties on the basis that such related parties may only participate in the equity raise at the maximum bid price at which they are prepared to take up shares or at the book close price in accordance with the provisions contained in paragraph 5.52(f) of the JSE Listings Requirements;
- the total aggregate number of shares which may be issued are the subject of general issues for cash and 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.”

**Note:** 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 5.

**1.7 Ordinary resolution number 6: 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 any and/or all resolutions contained in this notice.”

In order for:

- each of the ordinary resolutions numbers 1 to 4 and ordinary resolution number 6 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;
- non-binding advisory resolutions numbers 1 and 2 to be adopted, the support of at least 75% of the total number of votes exercisable by shareholders, present in person or by proxy, is required; and
- each of the special resolutions numbers 1, 2, 3 and ordinary resolution number 5 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.

**2. Special resolutions**

To consider and, if deemed fit, to pass, with or without modification, the following special resolutions. The percentage of voting rights that will be required for the adoption of each special resolution is the support of at least 75% of the voting rights exercised on the resolution.

**2.1 Special resolution number 1: Non-executive Directors’ fees**

“Resolved as a special resolution that, unless otherwise determined by the Company in a general meeting, the following annual fees (excluding value added tax) payable by the Company to its Non-executive Directors for their services as Directors, with effect from 1 January 2024 are approved.”

	Fee for the year ended 30 June 2023 R	Proposed fee for the year ending 30 June 2024 R
Annual fee		
Chairman of the Board	322 500	322 500
Member of the Board	215 000	215 000

**Explanation**

Section 66(9) of the Companies Act requires that a company may pay remuneration to its Directors for their services as directors only in accordance with a special resolution approved by the shareholders within the previous two years. The reason for, and effect of, special resolution number 1 is to grant the Company the authority to pay fees to its Non-executive Directors for their services as Directors. The Non-executive Directors’ fees are benchmarked against similar-sized companies listed on the JSE.

**2.2 Special resolution number 2: General approval to acquire own shares**

“Resolved, as a general approval by special resolution, that the Company and/or any of its subsidiaries from time to time be and they are hereby authorised to acquire ordinary shares in the Company in terms of, and subject to, the Companies Act, the memorandum of incorporation of the Company and its subsidiaries and the JSE Listings Requirements, as amended from time to time. Any acquisition of ordinary shares is also subject to the sanction of any other authority whose approval is required by law, regulation or the JSE Listings Requirements.”

**Note:** The JSE Listings Requirements currently provide, inter alia, that:

- the acquisition of the ordinary shares must be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the Company and the counterparty;
- this general authority shall only be valid until the earlier of the Company’s next annual general meeting or the expiry of a period of 15 (fifteen) months from the date of passing of this special resolution;
- in determining the price at which the Company’s ordinary shares are acquired in terms of this general authority, the maximum premium at which such ordinary shares may be acquired will be 10% (ten percent) of the weighted average of the market value at which such ordinary shares are traded on the JSE, as determined over the 5 (five) business days immediately preceding the date on which the transaction is effected;
- at any point in time, the Company may only appoint one agent to effect any acquisition/s on its behalf;
- the acquisitions of ordinary shares in the aggregate in any one financial year may not exceed 20% (twenty percent) of the Company’s issued ordinary share capital;
- the Company may only effect the repurchase once a resolution has been passed by the Board confirming that the Board has authorised the repurchase, that the Company has passed the solvency and liquidity test (“test”) and that since the test was done there have been no material changes to the financial position of the Group;
- the Company or its subsidiaries may not acquire ordinary shares during a prohibited period as defined in paragraph 3.67 of the JSE Listings Requirements; and
- an announcement will be published once the Company has cumulatively repurchased 3% (three percent) of the number of the ordinary shares in issue at the time this general authority is granted (“initial number”), and for each 3% (three percent) in aggregate of the initial number acquired thereafter.

Explanation

Special resolution number 2 is to grant the Company a general authority for the Company and the Company’s subsidiaries to acquire the Company’s issued ordinary shares. There is no requirement in the Companies Act for shareholder approval unless the acquisition by the Company of any particular class of securities exceeds 5% (five percent) of the issued shares of that class, either alone or together with other transactions in an integrated series of transactions, per Sections 48(8), 115 and 116 of the Companies Act.

It is the intention of the Directors of the Company to use such authority should prevailing circumstances (including tax dispensations and market conditions) in their opinion warrant it but subject at all times to the requirements of the Companies Act, the JSE Listings Requirements and the memorandum of incorporation of the Company.

2.2.1 Other disclosures in terms of Section 11.26 of the JSE Listings Requirements

The JSE Listings Requirements require the following disclosures, which are contained in the integrated report of which this notice forms part:

- Share capital of the Company: page 101; and
- Major shareholders of the Company: page 136.

2.2.2 Material changes

There have been no material changes in the affairs or financial position of the Company and its subsidiaries since the Company’s financial year end and the date of this notice.

2.2.3 Directors’ responsibility statement

The Directors, whose names are given on pages 46 and 47 of the integrated report of which this notice forms part, collectively and individually accept full responsibility for the accuracy of the information pertaining to special resolution number 2 and certify that, to the best of their knowledge and belief, there are no facts in relation to special resolution number 2 that have been omitted which would make any statement in relation to special resolution number 2 false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that special resolution number 2 together with this notice contains all information required by law and the JSE Listings Requirements in relation to special resolution number 2.

2.2.4 Adequacy of working capital

At the time that the contemplated repurchase is to take place, the Directors of the Company will ensure that after considering the effect of the maximum repurchase and for a period of 12 months thereafter:

- the Company and its subsidiaries will be able to pay their debts as they become due in the ordinary course of business;
- the consolidated assets of the Company and its subsidiaries, fairly valued in accordance with International Financial Reporting Standards, will be in excess of the consolidated liabilities of the Company and its subsidiaries;
- the issued share capital and reserves of the Company and its subsidiaries will be adequate for the purpose of the ordinary business of the Company and its subsidiaries; and
- the working capital available to the Company and its subsidiaries will be sufficient for the Group’s requirements.

2.3 Special resolution number 3: Loans or other financial assistance to related companies

“Resolved that, as a special resolution, in terms of Section 45 of the Companies Act, the shareholders hereby approve of the Company providing, at any time and from time to time during the period of two years commencing on the date of this special resolution number 3, any direct or indirect financial assistance (which includes lending money, guaranteeing a loan or other obligation, and securing any debt or obligation) as contemplated in Section 45 of the Companies Act to a related or inter-related company or corporation or to a member of any such related or inter-related corporation provided that:

- the Board from time to time, determines:
  - the specific recipient or general category of potential recipients of such financial assistance;
  - the form, nature and extent of such financial assistance;
  - the terms and conditions under which such financial assistance is provided; and
- the Board may not authorise the Company to provide any financial assistance pursuant to this special resolution number 3 unless the Board meets all those requirements of Section 45 of the Companies Act which it is required to meet in order to authorise the Company to provide such financial assistance.”

Explanation

The reason for and effect of special resolution number 3 is to grant the Board the authority to authorise the Company to provide financial assistance as contemplated in Section 45 of the Companies Act, to the persons specified in Section 45(2), i.e. a related or inter-related company or corporation, or to a member of a related or inter-related corporation. This resolution is intended to enable the Company to provide inter-company loans and guarantees within the Group.

3. Other business

To transact such other business as may be transacted at an annual general meeting of shareholders.

By order of the Board

CIS Company Secretaries Proprietary Limited

Company Secretary

Johannesburg  
31 October 2023

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” or “the Group”)

For use by holders of certificated Heriot ordinary shares or holders of dematerialised Heriot ordinary shares held through a Central Securities Depository Participant (“CSDP”) or broker, and who have selected “own-name” registration, at the annual general meeting of the Company to be held at 10:00 on Wednesday, 6 December 2023 (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 their CSDP or broker. These shareholders must not use this form of proxy.

Each shareholder is entitled to appoint one or more proxies 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

of or failing him/her

of

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 10:00 on Wednesday, 6 December 2023, and at any adjournment thereof, and to vote for me/us on my/our behalf in respect of the undermentioned resolutions.

	For*	Against*	Abstain*
Resolution			
1.1 Ordinary resolution number 1: Adoption of the annual financial statements			
1.2 Ordinary resolution number 2: Appointment/election of Directors			
1.2.1 Re-election of Selwyn Joel Blieden as a Director of the Company			
1.2.2 Re-election of Nelson Abram Ngale as a Director of the Company			
1.2.3 Re-election of Robin Lockhart-Ross as a Director of the Company			
1.3 Ordinary resolution number 3: Reappointment of the members of the Audit and Risk Committee			
1.3.1 Selwyn Joel Blieden (Chairman)			
1.3.2 Nelson Abram Ngale			
1.3.3 Robin Lockhart-Ross			
1.4 Ordinary resolution number 4: Reappointment of BDO South Africa Incorporated as the external auditor			



	For*	Against*	Abstain*
1.5 Non-binding advisory votes			
1.5.1 Non-binding advisory resolution number 1: Approval of the remuneration policy			
1.5.2 Non-binding advisory resolution number 2: Approval of the remuneration implementation report			
1.6 Ordinary resolution number 5: General authority to issue shares for cash			
1.7 Ordinary resolution number 6: Signature of documentation			
2.1 Special resolution number 1: Non-executive Directors’ fees			
2.2 Special resolution number 2: General approval to acquire own shares			
2.3 Special resolution number 3: Financial assistance to related or inter-related parties			

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 next page hereof.

Signed at \_\_\_\_\_ on the \_\_\_\_\_ day of \_\_\_\_\_ 2023

Signature \_\_\_\_\_

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

NOTES TO THE FORM OF PROXY

1. This form of proxy is only to be completed by those ordinary shareholders who are:

1.1 holding ordinary shares in certificated form; or

1.2 recorded in the sub-register in electronic form in their own name, on the date on which shareholders must be recorded as such in the register maintained by the transfer secretaries, Computershare Investor Services Proprietary Limited, in order to vote at the annual general meeting being Monday, 4 December 2023, 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 instructions 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 a proxy to the exclusion of those whose names follow.
5. A proxy appointed by a Heriot shareholder in terms hereof may not delegate his/her 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, 4 December 2023 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.
9. The Chairman of the annual general meeting may reject or accept any form of proxy which is completed and/or received other than in compliance with these notes.
10. Any alteration to this form of proxy, other than a deletion of alternatives, must be initialled by the signatory/ies.
11. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the Company.
12. Where there are joint holders of Heriot shares:

12.1 any one holder may sign this form of proxy; and

12.2 the vote of the senior member (for that purpose, seniority will be determined by the order in which the names of shareholders appear in the register of members) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote/s of the other joint holder/s of Heriot shares.
13. This form of proxy may be used at any adjournment or postponement of the annual general meeting, including any postponement due to a lack of quorum, unless withdrawn by the Heriot shareholder.
14. The foregoing notes contain a summary of the relevant provisions of Section 58 of the Companies Act, as required in terms of that section.



# APPLICATION FORM FOR ELECTRONIC PARTICIPATION AT THE ANNUAL GENERAL MEETING



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

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

### INSTRUCTIONS

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

Shareholders or their duly appointed proxies who wish to participate in the annual general meeting must complete this application form and email it (together with the relevant supporting documents referred to below) to the Company's transfer secretaries at **proxy@computershare.co.za** and to the Company Secretary at **nhlalwenhle.ndlovu@computershare.co.za** as soon as possible, but in any event by no later than Monday, 4 December 2023.

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

Heriot will send each participant a Microsoft Teams meeting invitation with a link to "Join the Microsoft Teams meeting" on receipt of the electronic participation application, but in any event before the annual general meeting on Wednesday, 6 December 2023, 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 or omission on the part of the participant or anyone else, including without limitation the Company and its employees.

### Application form:

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 141.

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 \_\_\_\_\_ 2023

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.

GLOSSARY

60 Adderley	60 Adderley Proprietary Limited
B-BBEE	Broad-based Black Economic Empowerment
BDO	BDO South Africa Incorporated
bps	Basis points
CBD	Central business district
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIS	CIS Company Secretaries Proprietary Limited
Companies Act	Companies Act No 71 of 2008
COVID-19	Coronavirus disease 2019, an infectious disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2)
CSDP	Central Securities Depository Participant
CSI	Corporate social investment
ECL	Expected credit losses
ESG	Environmental, social and governance
Fixtrade	Fixtrade 605 Proprietary Limited
GLA	Gross lettable area
ha	Hectare
Hagley	Hagley 3865 Proprietary Limited
Heriot	Heriot REIT Limited, the Company or the Group
Heriot Investments	Heriot Investments Proprietary Limited
Heriot Properties	Heriot Properties Proprietary Limited
HPI	Heriot Properties International Proprietary Limited
IASB	International Accounting Standards Board
IBOR	Interbank Offered Rate
ICR	Interest cover ratio
IFRS	International Financial Reporting Standards
<IR> Framework	International Integrated Reporting Framework
IRBA Code	Independent Regulatory Board of Auditors’ Code of Professional Conduct for Registered Auditors
ISAs	International Standards on Auditing
IT	Information technology
JIBAR	Johannesburg Interbank Average Rate
JSE	JSE Limited
King IV™	King IV Report for Corporate Governance in South Africa, 2016™
LED	Light-emitting diode
LTV	Loan-to-value ratio
m²	Square metre
Moditouch	Moditouch Proprietary Limited
MW	Megawatt
MWh	Megawatt hour
MWp	Megawatt peak
NAV	Net asset value
NCI	Non-controlling interests
NOI	Net property operating income
PPA	Purchase price allocation
REIT	Real Estate Investment Trust
SAPOA	South African Property Owners Association
SA REIT BPR	SA REIT Best Practice Recommendations
Safari	Safari Investments RSA Limited
SENS	Stock Exchange News Service
SPV	Special purpose vehicle
UNICEF	United Nations Children’s Fund

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  
(Private Bag X9000, Saxonwold 2132)

DIRECTORS

SB Herring (*Chairman*)\*  
RL Herring (*CEO*)  
D Snoyman (*CFO*)  
JA Finn\*  
SJ Blieden\*\*  
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  
(Private Bag X9000, Saxonwold 2132)

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)31

SHAREHOLDERS’ DIARY

Financial year end	30 June
Annual general meeting	6 December 2023
Integrated report released	31 October 2023

[www.heriotreit.com](http://www.heriotreit.com)



**Heriot**  
REIT *Committed to excellence*

