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# heartwood<sup>®</sup>

PROPERTIES

**HEARTWOOD PROPERTIES LIMITED**  
Incorporated in the Republic of South Africa  
Registration Number: 2017/654253/06  
ISIN: ZAE400000044  
CTSE Share Code: 4AHWP  
(“Heartwood Properties” or “the Company”)

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## DISPOSAL OF BUILD IT PROPERTY IN SOMERSET WEST

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### 1. INTRODUCTION

Shareholders are advised that Velvet Moon Properties 93 Proprietary Limited (“**Velvet Moon**” or the “**Seller**”), a wholly owned subsidiary of Heartwood Properties, has entered into an agreement for the disposal of a property and its lease (the “**Transaction Agreement**”) in respect of Erf 201774 Somerset West in Ext 6287, Provide of Western Cape (the “**Property**”), together with the letting enterprise conducted on the Property, as a going concern, which includes the commercial lease (“**Lease**”) by a Build It franchisee (SWSTGB Investments Proprietary Limited) (“the **Tenant**”) of the building on the Property (the “**Building**”) conducted in relation thereto (the “**Business**”), to Mohkul Properties CC, registration number 1997/25531/23) (the “**Purchaser**”), subject to the terms of the Transaction Agreement and the satisfaction or waiver of the conditions precedent set out below (the “**Transaction**”).

### 2. TERMS OF THE TRANSACTION

- 2.1. The Purchaser wishes to become the sole holder of the Business and the Lease, and therefore has acquired the entire interest of shares in the Business and Lease (the “**Sale Asset**”) in one indivisible transaction, with effect from the intended transfer date being 1 October 2025 (“**Intended Transfer Date**”).
- 2.2. The aggregate purchase consideration payable by the Purchaser in respect of the Sale Asset is R60 000 000 (sixty million Rand), in cash, exclusive of VAT at the rate of 0% (the “**Purchase Consideration**”). The Purchase Consideration was determined by using an 8% yield on forecast rentals and is payable by the Purchaser on the date of transfer.
- 2.3. The Transaction Agreement contains warranties standard for a transaction of its nature. The Sale Asset is purchased on the basis that it is taken *voetstoots*.

### 3. RATIONALE AND USE OF PROCEEDS

The disposal forms part of Heartwood Properties’ stated strategy of disposing properties within 3 to 5 years of completion. The proceeds will be used to settle the debt balance and the remainder of cash to the value of R29 000 000 (twenty nine million Rand) will be used to fund current and future developments after declaring any dividends in accordance with the Company’s dividend policy when disposing properties.

#### 4. SUSPENSIVE CONDITIONS

4.1. The Transaction Agreement is subject to the fulfilment of the following Suspensive Conditions, namely that –

4.1.1. Within 10 Business Days of the signature date, the Purchaser procures that an authorised representative sign a guarantee in terms of which it guarantees the due and punctual performance by the Purchaser of its obligations contained in the Transaction Agreement;

4.1.2. Within 30 Business Days of the Intended Transfer Date (which period is automatically extended for a further 10 Business Days), the Seller (or the Purchaser on the Seller's behalf) procures that the local authority issues the rates clearance certificate in relation to the Property.

4.2. Paragraph 4.1.1 is imposed for the benefit of the Seller and may be waived or relaxed by the Seller by written notice of such waiver or relaxation (as the case may be) to the Purchaser at any time before the due date for fulfilment thereof; and

4.3. Paragraph 4.1.2 is imposed for the benefit of both the Seller and Purchaser ("**Parties**"), and is not capable of being waived or relaxed other than by written agreement between the Parties.

#### 5. FINANCIAL EFFECTS

The Property's fair value as at 28 February 2022 was R51 200 000 and the cost of the Property is R39 072 887. As at 28 February 2022, the outstanding bond balance on the Property was R25 807 827. Monthly nett rental income is R342 800 per month, escalating at 8% on 1 October each year until lease expiry on 30 September 2030. The contribution of the property to net profit before tax for the 5 months October 2021 to February 2022 was R381 090 (net profit after tax of R278 196).

Pro-forma financial effect on Heartwood Properties shareholders can be summarised as follows:

	<b>Before Transaction – audited Feb22 (1)</b>	<b>Pro-forma after Transaction (2)</b>	<b>Percentage change from (1) to (2)</b>
Earnings per share	R0,11	R0,20	82%
Net asset value per share	R1,00	R1,10	10%
Weighted number of ordinary shares in issue	129 801 161	129 801 161	0%

#### Notes and assumptions included in the calculations above include:

1. The *pro forma* financial effects of the Transaction on the Company shareholders are provided and have been prepared for illustrative purposes only to provide information about how the Transaction may affect the financial position of the shareholders, and because of its nature, may not fairly present the actual financial position of the Transaction on the shareholders.
2. The *pro forma* financial effects of the Transaction has been prepared on the assumption that the aforementioned became effective on 1 March 2021 for the statement of profit and loss and 28 February 2022 in respect of the statement of financial position.
3. The Heartwood Properties information reflected in the "Before Transaction" column has been extracted without amendments from the Heartwood Properties audited consolidated financial statements for the 12 (twelve) months ended 28 February 2022.
4. The information reflected in the "Pro forma after the Transaction" column has been calculated on the basis that the Transaction has been implemented and based on the following assumptions:
  - 4.1. All income and expenses are deemed to have a continuing effect;
  - 4.2. No increase in the market value of the property is projected;
  - 4.3. There was no change in the issued number of shares as a result of the Transaction;
  - 4.4. There will be no increases or decreases in the prime interest rate.

## 6. PROPERTY SPECIFIC INFORMATION

<b>Building</b>	Erf 201774 Somerset West in Ext 6287, Provide of Western Cape
<b>Market value</b>	R51.2 million
<b>Location</b>	No. 12 Pacific Close, Motor City Mall, Somerset West, Western Cape
<b>Sector</b>	Retail
<b>Construction Completion Date</b>	August 2021 at a cost of R39.1 million
<b>GLA (m<sup>2</sup>)</b>	2 612
<b>Tenant Profile</b>	A
<b>Vacancy</b>	0%
<b>Yield</b>	8%
<b>Escalation</b>	8%
<b>Major Tenant</b>	Buildit
<b>Loan to Value Ratio</b>	50%
<b>WALE</b>	9,58

### Notes:

1. The valuation and physical inspection were performed during February 2022 supported by an external desktop valuation performed by William Hewitt of Mills Fitchet, an independent external valuer registered in terms of the Property Valuers Profession Act 47 of 2000. The method of valuation used was the Income Approach based on the Discounted Cashflow Method.
2. Tenant Profile Definition – A – Large national tenants, large listed tenants, government and major franchises. “Large” refers to top tier nationals and listed tenants. “Major” refers to tope tier franchises recognised as industry leaders.
3. The Company is not aware of any town planning restrictions or qualifications in respect of the valuations, nor of any statutory contraventions or options over the Property.

## 7. CATEGORISATION OF THE TRANSACTION

In terms of the CTSE Listing Requirements, the disposal is classified as a disclosable transaction for Heartwood Properties and is not subject to the approval of shareholders.

## 8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the Valuation Report referred to in paragraph 6 above, will be available for inspection during usual business hours on any weekday (Saturdays, Sundays and any public holidays excluded) from the date of this announcement at the offices of Heartwood Properties, being Unit 8 Tonquani House, 6 Gardner Williams Avenue Paardevelei, Somerset West, 7130.

20 September 2022

**CTSE External Issuer Agent**

**Pallidus**