



heartwood[®]

PROPERTIES

Heartwood Properties Limited
Incorporated in the Republic of South Africa
(Registration number 2017/654253/06)
CTSE Share code: 4AHWP
ISIN: ZAE40000044
(**"Heartwood Properties"** or **"the Company"**)

Unaudited consolidated interim financial results
for the 6 months ended 31 August 2022

Heartwood Properties Limited

(Registration number 2017/654253/06)

Unaudited Consolidated Interim Financial Results for the 6 months ended 31 August 2022

NATURE OF BUSINESS

The main business of Heartwood Properties and its subsidiaries ("**the Group**") is to invest in and to develop commercial and industrial properties. The Group develops high quality sustainable buildings underpinned by solid property fundamentals to achieve superior long term returns for our shareholders.

The Group has defined its strategy and service businesses model to:

- operating in the medium to large owner-managed sector;
- that require warehousing or office space; and/or
- may be looking to expand their operations.

Asset management and the majority of property management is performed internally by the Group.

Apart from the items highlighted below there has been no material changes to the information as published in the Property Entity Investors Report as at 31 May 2022. A copy of this report can be found at www.heartwoodproperties.co.za

HIGHLIGHTS

The Group is pleased to present its results for the 6 months ended 31 August 2022.

Some of the highlights include:

- Net asset value ("**NAV**") per share of 99 cents at 31 August 2022, 12% higher compared with 88 cents at 31 August 2021. If the dividend paid is taken into account the NAV per share at 31 August 2022 increases to 100 cents. The NAV per share at 28 February 2022 was 100 cents.
- Loan-to-value ("**LTV**") of 47% at 31 August 2022, compared to 50% at 31 August 2021 and 48% at 28 February 2022.
- Rental income increase of 39% between the periods ending 31 August 2022 and 31 August 2021.
- Cash and undrawn facilities in excess of R12.7 million at 31 August 2022 available to execute development pipeline. This is due to the fact that in addition to the cash available on the Statement of Financial Position of R2.7 million there was R10 million placed in an access facility with Standard Bank.
- Weighted average lease expiry ("**WALE**") at 4.97 years at 31 August 2022, with 4.06 years at 31 August 2021 and 5.12 years at 28 February 2022.
- Vacancies are 1.19% (6.71% at 31 August 2021 and 1.29% at 28 February 2022).
- During the period under review, the Group started construction of a new facility for a tenant based in Firgrove Industrial Park, Somerset West. The project consists of a warehouse and office and the tenant is expected to start trading in November 2022. The project was structured as a joint venture in which the Group has a 50% share.
- The Group sold 4 units at its Willow Wood Office Park in Fourways during the period under review for R18.5 million. The surplus funds from the sale of the units amounted to approximately R8 million and was placed in the access facility as mentioned above.

DIVIDENDS

The Group's dividend policy is to consider an interim and a final dividend in respect of each financial year. At its discretion, the board of directors ("**the Board**") may consider a special dividend, where appropriate. Depending on the perceived need to retain funds for expansion or operating purposes, the Board may pass on the payment of dividends.

During the 6 month period, Heartwood Properties declared and paid a dividend of R1,991,978 to shareholders.

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Condensed Statement of Financial Position

Figures in Rand	Notes	Group		
		31 August 2022 Unaudited	28 February 2022 Audited	31 August 2021 Unaudited
Assets				
Non-Current Assets				
Property, plant and equipment		175,209	108,700	132,957
Investment property	2	211,321,463	244,714,957	245,619,643
Lease incentive		1,101,839	1,219,478	1,337,116
Operating lease asset		9,887,645	12,948,338	12,812,258
Goodwill		19,110	19,110	19,110
Investments in joint ventures		-	-	-
Investments at fair value		-	-	3,637,088
Loans to group companies	3	4,353,652	-	-
Loans receivable		840,546	-	-
		227,699,464	259,010,583	263,558,172
Current Assets				
Operating lease asset		5,223,275	1,328,983	-
Investments at fair value		3,179,360	3,977,750	-
Trade and other receivables		1,587,260	1,828,672	984,228
Current tax receivable		35	35	-
Cash and cash equivalents	4	2,729,591	12,223,567	7,630,041
		12,719,521	19,359,007	8,614,304
Non-current assets held for sale	5	33,500,000	18,500,000	-
Total Assets		273,918,985	296,869,590	272,172,476
Equity and Liabilities				
Equity				
Equity Attributable to Equity Holders of Parent				
Share capital	6	80,112,149	79,911,299	79,911,299
Foreign currency translation reserve		192,739	351,123	197,105
Change in ownership reserve		147,512	141,047	141,047
Retained income		48,907,510	50,392,666	35,584,924
		129,359,910	130,796,135	115,834,375
Non-controlling interest		337,959	307,611	205,901
		129,697,869	131,103,746	116,040,276
Liabilities				
Non-Current Liabilities				
Loans from group companies		50	-	-
Interest-bearing borrowings	7	89,943,898	128,763,367	126,571,362
Long-term employee benefit		115,739	701,159	841,404
Deferred tax		26,853,567	26,181,742	21,725,199
		116,913,254	155,646,268	149,137,965

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Condensed Statement of Financial Position

Figures in Rand	Notes	Group		
		31 August 2022 Unaudited	28 February 2022 Audited	31 August 2021 Unaudited
Current Liabilities				
Interest-bearing borrowings	7	21,552,928	4,735,772	2,755,751
Trade and other payables		5,158,422	4,278,324	4,233,568
Long-term employee benefit		585,421	1,093,561	-
Current tax payable		-	-	29
Bank overdraft	4	11,091	11,919	4,887
		27,307,862	10,119,576	6,994,235
Total Liabilities		144,221,116	165,765,844	156,132,200
Total Equity and Liabilities		273,918,985	296,869,590	272,172,476

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Condensed Statement of Comprehensive Income

Figures in Rand	Notes	Group		
		31 August 2022 Unaudited	28 February 2022 Audited	31 August 2021 Unaudited
Revenue	9	15,499,302	25,782,599	11,158,973
Other operating income		639,151	-	-
Fair value adjustments		(1,007,728)	18,914,759	298,249
Movement in credit loss allowances	10	294,638	(474,580)	(243,168)
Other operating expenses		(9,664,260)	(17,171,490)	(7,664,385)
Operating profit		5,761,103	27,051,288	3,549,669
Investment income		143,596	95,983	38,033
Finance costs		(4,695,605)	(7,816,843)	(3,623,265)
Loss from shares in joint ventures		(100)	-	-
Profit/(loss) before taxation		1,208,994	19,330,428	(35,563)
Taxation		(671,824)	(4,899,567)	(443,024)
Profit/(loss) for the period		537,170	14,430,861	(478,587)
Other comprehensive income:				
Items that may be reclassified to profit or loss:				
Exchange differences on translating foreign operations		(158,384)	(54,837)	-
Other comprehensive income for the period net of taxation		(158,384)	(54,837)	-
Total comprehensive income for the period		378,786	14,376,024	-
(Loss)/Profit attributable to:				
Owners of the parent		506,822	14,309,098	(498,639)
Non-controlling interest		30,348	121,763	20,052
		537,170	14,430,861	(478,587)

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Statement of Changes in Equity

	Share capital	Foreign currency translation reserve	Change in ownership reserve	Retained income	Total attributable to equity holders of the group / company	Non-controlling interest	Total equity
Figures in Rand							
Group							
Balance at 01 March 2021	77,911,299	405,960	141,047	36,083,568	114,541,874	185,848	114,727,722
Profit for the year	-	-	-	14,309,098	14,309,098	121,763	14,430,861
Other comprehensive income	-	(54,837)	-	-	(54,837)	-	(54,837)
Total comprehensive income for the year	-	(54,837)	-	14,309,098	14,254,261	121,763	14,376,024
Issue of shares	2,000,000	-	-	-	2,000,000	-	2,000,000
Total contributions by and distributions to owners of company recognised directly in equity	2,000,000	-	-	-	2,000,000	-	2,000,000
Balance at 01 March 2022	79,911,299	351,123	141,047	50,392,666	130,796,135	307,611	131,103,746
Profit for the period	-	-	-	506,822	506,822	30,348	537,170
Other comprehensive income	-	(158,384)	-	-	(158,384)	-	(158,384)
Total comprehensive income for the period	-	(158,384)	-	506,822	348,438	30,348	378,786
Issue of shares	200,850	-	-	-	200,850	-	200,850
Dividends	-	-	-	(1,991,978)	(1,991,978)	-	(1,991,978)
Changes in ownership interest - control lost	-	-	6,465	-	6,465	-	6,465
Total contributions by and distributions to owners of company recognised directly in equity	200,850	-	6,465	(1,991,978)	(1,784,663)	-	(1,784,663)
Balance at 31 August 2022	80,112,149	192,739	147,512	48,907,510	129,359,910	337,959	129,697,869
Note	6						

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Statement of Cash Flows

Figures in Rand	Notes	Group		
		31 August 2022 Unaudited	28 February 2022 Audited	31 August 2021* Unaudited
Cash flows from operating activities				
Cash generated from/(used in) operations		5,945,779	8,920,253	4,333,859
Interest income		202,658	95,983	38,033
Finance costs		(4,690,218)	(8,129,182)	(3,993,584)
Tax paid		-	(29)	-
Net cash from operating activities		1,458,219	887,025	378,308
Cash flows from investing activities				
Purchase of property, plant and equipment		(96,402)	-	-
Purchase of investment property	2	(942,987)	(3,319,116)	(2,985,147)
Sale of investment property	2	8,942,323	3,106,816	3,106,816
Loans to group companies repaid		5,200,000	-	-
Loans advanced to group companies		(9,219,246)	-	-
Loans advanced to other loans		(6,480)	-	-
Net cash from investing activities		3,877,208	(212,300)	121,669
Cash flows from financing activities				
Proceeds on share issue	6	200,850	2,000,000	2,000,000
Proceeds from borrowings		11,000,000	17,695,008	6,398,498
Repayment of borrowings		(24,037,447)	(13,283,447)	(6,398,683)
Dividends paid		(1,991,978)	-	-
Net cash from financing activities		(14,828,575)	6,411,561	1,999,815
Total cash movement for the period		(9,493,148)	7,086,286	2,499,792
Cash at the beginning of the period		12,211,648	5,125,362	5,125,362
Total cash at end of the period	4	2,718,500	12,211,648	7,625,154

*Restatement of the Unaudited Interim Consolidated Statement of Cash Flows

In the unaudited interim consolidated financial results, for the 6 months ended 31 August 2021, certain non-cash movements were incorrectly classified and disclosed as cash flow items on the face of the Statement of Cash Flows. The figures for 31 August 2021 have been restated retrospectively.

The correction of these errors has been noted in the audited consolidated and separate annual financial statements for the year ended 28 February 2022.

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Unaudited Consolidated Interim Financial Results for the 6 months ended 31 August 2022

Selected Explanatory Notes to the Interim Financial Results

1. New Standards and Interpretations

The condensed consolidated interim financial statements are prepared in accordance with the International Financial Reporting Standard, IAS34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act of South Africa. The accounting policies applied in the preparation of these interim financial statements are in terms of International Financial Reporting Standards and are consistent with those applied in the previous annual financial statements.

These condensed consolidated interim financial statements have not been reviewed or audited by the Company's external auditors.

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Selected Explanatory Notes to the Interim Financial Results

2. Investment property

Group	31 August 2022 Unaudited			28 February 2022 Audited		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	214,031,194	(2,709,731)	211,321,463	247,117,739	(2,402,782)	244,714,957

Reconciliation of investment property - Group – August 2022

	Opening balance	Additions	Classified as held for sale	Transfers	Amortisation	Fair value adjustments	Total
Investment property	243,903,202	19,500	(33,500,000)	-	(363,602)	(371,857)	209,687,243
Investment property under development	811,755	923,485	-	(101,020)	-	-	1,634,220
	244,714,957	942,987	(84,700,000)	(101,020)	(363,602)	(371,857)	211,321,463

Reconciliation of investment property - Group – February 2022

	Opening balance	Additions	Classified as held for sale	Transfers	Interest capitalised	Amortisation	Fair value adjustments	Total
Investment property	205,082,331	497,585	(18,500,000)	38,702,887	-	(794,360)	18,914,759	243,903,202
Investment property under development	22,007,865	17,132,169	-	(38,702,887)	374,608	-	-	811,755
	227,090,196	17,629,754	(18,500,000)	-	374,608	(794,360)	18,914,759	244,714,957

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Selected Explanatory Notes to the Interim Financial Results

	Group		
Figures in Rand	31 August 2022 Unaudited	28 February 2022 Audited	31 August 2021 Unaudited
2. Investment property (continued)			
The fair value of the following investment property could not be determined reliably:			
Investment property under development	1,634,220	811,755	2,093,419
As at 31 August 2022, the investment property under development is measured at cost. The fair value is not reliably measurable due to the fact that the market for comparable properties is currently inactive, there are no alternative reliable measurements available and due to the early stage of the development it has not yet become possible to reliably measure the property's fair value. The costs relating to the three projects under development mainly relate to professional fees incurred.			
Pledged as security			
Carrying value of assets pledged as security:			
Unit 1&2 - Block A, Willow Wood	62,937,742	62,466,984	57,296,226
Block B, Willow Wood	15,990,581	16,021,205	18,517,909
Block C, Willow Wood	22,900,000	22,900,000	21,198,300
Block D, Willow Wood	23,839,665	23,768,706	38,342,694
Erf 661, Lanseria Ext 46, Johannesburg, Gauteng	-	15,450,162	15,149,924
Erf 643, Lanseria Ext 45, Johannesburg, Gauteng	-	14,216,776	14,078,381
Erf 20, Lyme Park Township	39,398,484	39,487,304	40,567,195
Erf 20774, Somerset West	48,620,841	49,592,065	38,375,595
	213,687,313	243,903,202	243,526,225
Fair value of investment property			
Value per above	211,321,465	244,714,957	245,619,643
Investment property classified as held for sale	33,500,000	18,500,000	-
Operating lease asset	15,110,920	14,277,321	12,812,258
Lease modification	1,101,839	1,219,478	1,337,116
	261,034,222	278,711,756	259,769,017

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Figures in Rand	Group		
	31 August 2022 Unaudited	28 February 2022 Audited	31 August 2021 Unaudited

2. Investment property (continued)

Details of property

Investment properties

Acquisition at cost	73,165,708	73,165,708	73,165,708
Improvements and additions	72,736,683	79,136,683	90,678,609
Tenant installations	2,219,596	2,583,200	2,980,378
Interest capitalised	2,694,174	2,694,174	2,694,174
Fair value adjustments	82,627,302	82,999,158	64,196,909
Additions at cost	29,878,000	29,036,034	11,903,865
Classified as held for sale	(33,500,000)	(18,500,000)	-
Disposal	(18,500,000)	(6,400,000)	-
	211,321,463	244,714,957	245,619,643

Registers with details of land and buildings are available for inspection by shareholders or their duly authorised representatives at the registered office of the company.

Velvet Moon Properties 93 (Pty) Ltd received a purchase offer for the Build It Property (Erf 20774, Somerset West) which was accepted by the board of directors on 20 September 2022. The total consideration will be R60,000,000 and the property will be transferred in October 2025.

Details of valuation

External valuations, performed by independent, duly registered valuers were performed on the full portfolio at 28 February 2022.

3. Loans to group companies

Joint ventures

Heartwood Logistics 1 (Pty) Ltd

The loan is unsecured, interest free and has no fixed terms of repayment.

56,526 - -

Firgrove Developments (Pty) Ltd - Normal

The loan is unsecured, has no fixed terms of repayment and bears interest at Prime+1%.

3,258,138 - -

Firgrove Developments (Pty) Ltd - Excess

The loan is unsecured, has no fixed terms of repayment and bears interest at Prime+2%.

1,038,988 - -

4,353,652 - -

Split between non-current and current portions:

Non-current assets	3,314,644	-	-
Current assets	1,038,988	-	-
	4,353,652	-	-

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Figures in Rand	Group		
	31 August 2022	28 February 2022	31 August 2021
	Unaudited	Audited	Unaudited

4. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	2,729,591	12,223,567	7,630,041
Bank overdraft	(11,091)	(11,919)	(4,887)
	2,718,500	12,211,648	7,625,154
Current assets	2,729,591	12,223,567	7,630,041
Current liabilities	(11,091)	(11,919)	(4,887)
	2,718,500	12,211,648	7,625,154

In addition to the cash balances as at 31 August 2022 above, an amount of R10 million excess cash is held in an access facility with Standard Bank. Total cash available is thus R12,718,500.

5. Non-current assets held for sale

The group entered into the following sale agreements during the period:

- Erf 661, Lanseria Ext 46, Johannesburg, Gauteng
- Erf 643, Lanseria Ext 45, Johannesburg, Gauteng

During the current period, the group sold a portion of its investment property - unit 305-308 of Block D for R18,500,000. The cost relating to this unit was calculated at R11,659,309. The effective date of sale was 21 June 2022.

Assets and liabilities

Non-current assets held for sale

Units Block D	-	18,500,000	18,500,000
Erf 661, Lanseria Ext 46, Johannesburg, Gauteng	17,400,000	-	-
Erf 643, Lanseria Ext 45, Johannesburg, Gauteng	16,100,000	-	-
	33,500,000	18,500,000	18,500,000

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Selected Explanatory Notes to the Interim Financial Results

Figures in Rand	Group		
	31 August 2022	28 February 2022	31 August 2021
	Unaudited	Audited	Unaudited

6. Share capital

Authorised

400 000 000 Ordinary no par value shares	400,000,000	400,000,000	400,000,000
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On 26 August 2022, the Company issued 200,850 no par value ordinary shares at a price of R1,00 per share. The aggregate subscription consideration received by the Company amounted to R200,850. The proceeds of the issue will be utilised by the Group in its current and future property developments.

Reconciliation of number of shares issued:

Reported as at 01 March 2022	131,051,161	128,551,161	128,551,161
Issue of shares – ordinary shares	200,850	2,500,000	2,500,000
	131,252,011	131,051,161	131,051,161

Issued

131 252 011 (Feb 2022:131 051 161) ordinary no par value shares	80,112,149	79,911,299	79,911,299
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Selected Explanatory Notes to the Interim Financial Results

Figures in Rand	Group		
	31 August 2022 Unaudited	28 February 2022 Audited	31 August 2021 Unaudited

7. Interest-bearing borrowings

Held at amortised cost

Nedbank Limited

9,356,948	9,768,837	10,178,447
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The loan bears interest at prime overdraft rate less 0.25% and is repayable in monthly instalments of R123,943. The loan expires in September 2024. The interest rate at period end was 6.75% per annum

The securities provided for the loan are as follows:

- Existing loan: R14,000,000 first covering bond over the property described as Erf 661, Lanseria;
 - Irrevocable guarantee of R1,357,500 from Abundant Media Proprietary Limited;
 - Irrevocable guarantee from Heartwood Properties Limited for R3,167,500.

Management has assessed the likelihood of the guarantees being called on to be low based on the financial position of the company.

Standard Bank of South Africa Limited

68,104,858	89,102,945	84,100,871
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The loan bears interest at prime overdraft rate less 0.75% and is repayable in monthly capital instalments with a bullet payment on 31 October 2023. The interest rate at the end of the period was 8.25% (Feb 2022: 6.75%) per annum.

The property portfolios of Velvet Moon Properties 93 Proprietary limited, Fargofer Proprietary Limited and Utter Velvet Proprietary Limited have been pledged as security (refer to note 2).

Nedbank Limited - VAT Facility

-	-	1,152,566
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The facility consists of the VAT portion of capital drawdowns submitted for the development of the property described as Erf 19150, which has also been provided as security for the loan.

The facility bears interest at prime overdraft rate, is repayable on a 3 month rolling period and is limited to R2,100,000.

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Figures in Rand	Group		
	31 August 2022 Unaudited	28 February 2022 Audited	31 August 2021 Unaudited
7. Interest-bearing borrowings (continued)			
Nedbank Limited	25,522,342	25,807,827	24,760,590
The loan is secured over the Build It property in Somerset West. During the development of the property the loan carried interest at the prime overdraft rate, and on completion at the prime overdraft rate less 0.25% per annum. The interest rate at the end of the period was 8.75%.			
During the construction period only interest was repayable in monthly instalments, after which the loan is repayable in monthly instalments over a period of 5 years.			
Guarantees provided for the loan includes an irrevocable guarantee of R9,500,000 from Heartwood Properties Limited in favour of Nedbank Limited. Management has assessed the likelihood of the guarantee being called on to be low based on the financial position of the company.			
Nedbank Limited	8,378,756	8,690,995	9,010,592
The loan is secured over the property development described as Erf 643, Lanseria in note 2. Limited sureties have been provided by Velvet Moon Properties 93 Proprietary Limited to the value of R5 000 000 and Chirpy Properties Proprietary Limited to the value of R1,000,000.			
During the development of the property the loan carried interest at prime overdraft rate, and on completion prime overdraft rate less 0.25% per annum. The interest rate at the end of the period was 8.75%.			
For the first 12 months only interest is repayable in monthly instalments, after which the loan is repayable in monthly instalments over a 10 year period with a final residual payment of R2,600,000.			
Chirpy Properties Proprietary Limited	133,922	128,535	124,047
The loan is unsecured, bears interest at the prime rate and is repayable on demand.			
	111,496,826	133,499,139	68,104,858
Split between non-current and current portions			
Non-current liabilities	89,943,898	128,763,367	126,571,362
Current liabilities	21,552,928	4,735,772	2,755,751
	111,496,826	133,499,139	129,327,113

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Selected Explanatory Notes to the Interim Financial Results

Figures in Rand	Group		
	31 August 2022 Unaudited	28 February 2022 Audited	31 August 2021 Unaudited
8. Revenue			
Revenue from contracts with customers			
Straight-lining lease adjustment (straight-line basis)	833,597	1,514,406	49,342
Lease incentive amortisation (straight-line basis)	(117,638)	(235,277)	(117,638)
Rental income (straight-line basis)	11,866,640	20,166,048	9,318,170
Recoveries: Electricity, water, refuse, rates and taxes (over time)	2,857,641	4,337,422	1,909,099
	15,440,240	25,782,599	11,158,973
Revenue other than from contracts with customers			
Interest received (trading)	59,062	-	-
	15,499,302	25,782,599	11,158,973
9. Operating profit (loss)			
Operating profit for the period is stated after charging (crediting) the following, amongst others:			
Auditor's remuneration - external			
Audit fees	510,000	530,000	530,000
Remuneration, other than to employees			
Administrative and managerial services	151,853	163,864	-
Consulting and professional services	917,112	1,461,299	51,733
Secretarial services	93,900	162,105	-
	1,162,865	1,787,268	51,733
Employee costs			
Salaries, wages, bonuses and other benefits	3,242,760	4,682,071	-
Long term incentive scheme	(1,093,561)	953,316	-
Total employee costs	2,149,199	5,635,387	-
Leases			
Short-term leases	125,428	250,857	-
Total lease expenses	125,428	250,857	-
Depreciation and amortisation			
Amortisation of investment property (tenant installations)	363,602	794,360	-
Depreciation of property, plant and equipment	29,893	49,161	-
Total depreciation and amortisation	393,495	843,521	-
Movement in credit loss allowances			
Trade and other receivables	(294,638)	474,580	-

Heartwood Properties Limited

(Registration number 2017/654253/06)

Unaudited Consolidated Interim Financial Results for the 6 months ended 31 August 2022

Selected Explanatory Notes to the Interim Financial Results

Figures in Rand	Group		
	31 August 2022 Unaudited	28 February 2022 Audited	31 August 2021 Unaudited
Other			
Levies	855,579	1,919,553	899,465
Listing costs	111,158	156,212	84,716
Municipal expenses	1,679,889	2,322,247	2,058,923
Rates	1,043,873	2,016,783	-
Travel - local	19,555	26,839	7,211

10. Events after the reporting period

There were no significant events that occurred after the reporting date that require adjustment to or disclosure in the consolidated interim financial statements for the six months ended 31 August 2022.