



heartwood®

PROPERTIES

Heartwood Properties Limited
Incorporated in the Republic of South Africa
(Registration number 2017/654253/06)
CTSE Share Code: 4AHWP
ISIN: ZAE400000044
("Heartwood Properties" or "the Company")

Unaudited consolidated interim financial results
for the 6 months ended 31 August 2021

Heartwood Properties Limited

(Registration number 2017/654253/06)

Unaudited Consolidated Interim Financial Results for the 6 months ended 31 August 2021

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 business model to:

- service businesses operating in the medium to large owner-managed sector;
- businesses 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 at 28 February 2021. 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 2021.

Some of the highlights include

- Net asset value ("**NAV**") per share of 88 cents at 31 August 2021, 22% higher compared with 72 cents at 31 August 2020. The NAV per share at 28 February 2021 was 89 cents.
- Loan-to-value ("**LTV**") of 50% at 31 August 2021, compared to 56% at 31 August 2020 and 45% at 28 February 2021.
- Rental income increase of 22% between the periods ending 31 August 2021 and 31 August 2020.
- Cash and undrawn facilities in excess of R7million at 31 August 2021 available to execute development pipeline
- Weighted average lease expiry ("**WALE**") at 4.06 years at 31 August 2021, which remains consistent with 4.87 years at 31 August 2020 and 4.8 years at 28 February 2021.
- Vacancies are 6.71% (0% at 31 August 2020 and 3.18% at 28 February 2021).
- During the period under review, the Group completed the construction of a retail showroom and warehouse for the Build It group in Somerset West. The project was purpose built for the tenant who is expected to start trading in November 2021.
- Challenging economic conditions persisted during the period, due to the COVID pandemic and also other events (e.g. riots, loadshedding and low economic growth). Due to these factors tenants continue to face pressure on rent affordability. Debtor arrears are kept to a minimum through continuous communication and follow up with tenants.

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.

The Board decided to retain any available reserves and surplus funds for future developments and investment opportunities. The Board has therefore resolved not to declare a dividend for the interim period ended 31 August 2021.

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Condensed Statement of Financial Position

Figures in Rand	Notes	Group		
		31 August 2021 Unaudited	28 February 2021 Audited	31 August 2020 Unaudited
Assets				
Non-Current Assets				
Property, plant and equipment		132,957	157,861	169,787
Investment property	2	245,619,643	227,090,196	196,511,628
Goodwill		19,110	19,110	19,110
Investments at fair value		3,637,088	4,036,800	4,472,420
Lease incentive		1,337,116	1,454,755	1,581,255
Operating lease asset		12,812,258	12,762,915	11,707,773
		263,558,172	245,521,637	214,461,973
Current Assets				
Trade and other receivables		984,228	1,933,491	2,157,310
Inventories		-	-	10,285,795
Loans receivable		-	-	800
Current tax receivable		35	35	35
Cash and cash equivalents	3	7,630,041	5,132,398	7,133,445
		8,614,304	7,065,924	19,577,385
Non-current assets held for sale		-	6,400,000	-
Total Assets		272,172,476	258,987,561	234,039,358
Equity and Liabilities				
Equity Attributable to Equity Holders of Parent				
Share capital	4	79,911,299	77,911,299	77,911,299
Change in ownership reserve		141,047	141,047	684,038
Foreign control translation reserve		197,105	405,960	-
Retained income		35,584,924	36,083,570	13,434,956
		115,834,375	114,541,876	92,030,293
Non-controlling interest		205,901	185,848	236,756
		116,040,276	114,727,724	92,267,049
Liabilities				
Non-Current Liabilities				
Interest-bearing borrowings	5	126,571,362	108,645,351	120,774,065
Long term employee benefit		841,404	841,404	199,336
Deferred tax		21,725,199	21,282,196	13,783,818
		149,137,965	130,768,951	134,757,219

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Condensed Statement of Financial Position

Figures in Rand	Notes	Group		
		31 August 2021 Unaudited	28 February 2021 Audited	31 August 2020 Unaudited
Current Liabilities				
Trade and other payables		4,233,568	9,539,079	3,814,760
Interest-bearing borrowings	5	2,755,751	3,944,742	3,191,811
Current tax payable		29	29	4,816
Bank overdraft	3	4,887	7,036	3,703
		6,994,235	13,490,886	7,015,090
Total Liabilities		156,132,200	144,259,837	141,772,309
Total Equity and Liabilities		272,172,476	258,987,561	234,039,358

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Condensed Statement of Comprehensive Income

Figures in Rand	Notes	Group		
		31 August 2021 Unaudited	28 February 2021 Audited	31 August 2020 Unaudited
Revenue	6	11,158,973	39,672,012	12,470,878
Cost of sales		-	(11,159,428)	-
Gross profit		11,158,973	28,512,584	12,470,878
Other operating income		-	62,816	40,636
Net fair value gains		298,249	22,987,624	(2,628,621)
Movement in credit loss allowances	7	(243,168)	(138,359)	-
Other operating expenses		(7,664,385)	(14,412,521)	(6,712,564)
Operating profit		3,549,669	37,012,144	3,170,329
Finance income		38,033	324,169	150,058
Finance costs		(3,623,265)	(7,086,444)	(3,307,972)
(Loss)/Profit before income tax expense		(35,563)	30,249,869	12,415
Income tax expense		(443,024)	(7,259,714)	238,987
(Loss)/Profit and total comprehensive income for the period		(478,587)	22,990,155	251,402
(Loss)/Profit and total comprehensive attributable to:				
Owners of the parent		(498,639)	22,912,745	264,131
Non-controlling interest		20,052	77,410	(12,729)
		(478,587)	22,990,155	251,402

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Condensed Statement of Changes in Equity

	Share capital	Foreign currency translation reserve	Change in ownership interest	Retained income	Total attributable to equity holders of the group / company	Non-controlling interest	Total equity
Figures in Rand							
Group							
Balance at 01 March 2020	77,676,184	215,906	-	13,170,825	91,062,915	602,157	91,665,072
Profit for the year	-	-	-	22,912,745	22,912,745	77,410	22,990,155
Other comprehensive income	-	190,054	-	-	190,054	-	190,054
Total comprehensive income for the year	-	190,054	-	22,912,745	23,102,799	77,410	23,180,209
Issue of shares/Change in ownership	235,115	-	141,047	-	376,162	(493,719)	(117,557)
Total contributions by and distributions to owners of company recognised directly in equity	235,115	-	141,047	-	376,162	(493,719)	(117,557)
Balance at 01 March 2021	77,911,299	405,960	141,047	36,083,563	114,541,869	185,848	114,727,717
Loss for the 6 months	-	-	-	(498,639)	(498,639)	20,053	(478,586)
Other comprehensive loss for the 6 months	-	(208,855)	-	-	(208,855)	-	(208,855)
Total comprehensive Loss for the 6 months	-	(208,855)	-	(498,639)	(707,494)	20,053	(687,441)
Issue of shares	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 31 August 2021	79,911,299	197,105	141,047	35,584,924	115,834,375	205,901	116,040,276

Note

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Condensed Statement of Cash Flows

Figures in Rand	Notes	Group		
		31 August 2021 Unaudited	28 February 2021 Audited	31 August 2020 Unaudited
Cash flows from operating activities				
Cash receipts from customers		10,984,102	22,296,253	10,043,647
Cash paid to suppliers and employees		(14,940,311)	(13,111,812)	(10,637,444)
Cash generated from/(used in) operations		(3,956,209)	9,184,441	(593,797)
Interest income		38,033	324,169	150,058
Finance costs		(3,623,265)	(7,075,442)	(3,307,972)
Tax paid		-	(5,110)	-
Net cash from operating activities		(7,541,441)	2,428,058	(3,751,711)
Cash flows from investing activities				
Acquisition of property, plant and equipment		(3,668)	(22,325)	-
Additions to investment property	2	(11,824,996)	(25,811,819)	(14,116,158)
Sale of investment property		3,132,877	-	-
Other comprehensive income		-	-	-
Interest capitalised to investment property		(374,607)	(826,207)	(826,207)
Net cash from investing activities		(9,070,394)	(26,660,351)	(14,942,365)
Cash flows from financing activities				
Proceeds on share issue	4	2,000,000	-	235,115
Proceeds from interest-bearing borrowings		28,098,457	28,167,343	20,528,312
Repayment of interest-bearing borrowings		(10,986,830)	(3,752,521)	-
Purchase of remaining investment in NCI		-	(117,558)	-
Net cash from financing activities		19,111,627	24,297,264	20,763,427
Total cash movement for the period		2,499,792	64,971	2,069,351
Cash at the beginning of the period		5,125,362	5,060,391	5,060,391
Total cash at end of the period	3	7,625,154	5,125,362	7,129,742

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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	2021		2021			
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	247,269,300	(1,649,657)	245,619,643	228,589,123	(1,498,927)	227,090,196

Reconciliation of investment property - Group - 2021

	Opening balance	Additions	Transfers	Interest capitalised	Amortisation	Fair value adjustments	Total
Investment property	205,082,331	352,967	38,375,597	-	(397,180)	112,510	243,526,225
Investment property under development	22,007,865	18,086,543	(38,375,597)	374,608	-	-	2,093,419
	227,090,196	18,439,509	-	374,608	(397,180)	112,510	245,619,643

Reconciliation of investment property - Group - 2021

	Opening balance	Additions	Classified as held for sale	Tenant installations	Interest capitalised	Amortisation	Fair value adjustments	Total
Investment property	183,838,738	3,379,511	(6,400,000)	1,118,574	826,207	(415,414)	22,734,715	205,082,331
Investment property under development	694,131	21,313,734	-	-	-	-	-	22,007,865
	184,532,869	24,693,245	(6,400,000)	1,118,574	826,207	(415,414)	22,734,715	227,090,196

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Figures in Rand	Group		
	31 August 2021 Unaudited	28 February 2021 Audited	31 August 2020 Unaudited
2. Investment property (continued)			
The fair value of the following investment property could not be determined reliably:			
Investment property under development	2,093,419	22,007,865	10,978,388
The fair value could not be determined reliably because the costs relate to properties still under development.			
Pledged as security			
Carrying value of assets pledged as security:			
Unit 1&2 - Block A, Willow Wood	57,296,226	56,825,467	49,991,874
Block B, Willow Wood	18,517,909	18,463,196	17,573,060
Block C, Willow Wood	21,198,300	21,841,606	19,346,485
Block D, Willow Wood	38,342,694	37,781,803	34,627,272
Erf 661, Lanseria Ext 46, Johannesburg, Gauteng	15,149,924	15,135,097	15,546,291
Erf 643, Lanseria Ext 45, Johannesburg, Gauteng	14,078,381	14,268,880	14,268,890
Erf 20, Lyme Park Township	40,567,195	40,766,280	34,179,368
Erf19150, Somerset West	38,375,595	-	-
	243,526,225	205,082,331	185,533,240
Fair value of investment property			
Value per above	245,619,643	227,090,196	196,511,628
Operating lease asset	12,812,258	12,762,915	11,707,773
Lease modification	1,337,116	1,454,755	1,581,255
	259,769,017	241,307,866	209,800,656

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Selected Explanatory Notes to the Interim Financial Results

Group

Figures in Rand	31 August 2021 Unaudited	28 February 2021 Audited	31 August 2020 Unaudited
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2. Investment property (continued)

Details of property

Investment properties

Acquisition at cost	73,165,708	73,165,708	63,887,915
Improvements and additions	90,678,609	78,639,098	77,822,647
Tenant installations	2,980,378	3,377,560	3,725,591
Interest capitalised	2,694,174	2,319,566	2,319,566
Fair value adjustments	64,196,909	64,084,399	37,777,521
Additions at cost	11,903,865	11,903,865	10,978,388
Held for sale	-	(6,400,000)	-
	245,619,643	227,090,196	196,511,628

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.

Details of valuation

External valuations, performed by independent, duly registered valuers were performed on the full portfolio at 28 February 2021.

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	7,630,041	5,132,398	7,133,445
Bank overdraft	(4,887)	(7,036)	(3,703)
	7,625,154	5,125,362	7,129,742
Current assets	7,630,041	5,132,398	7,133,445
Current liabilities	(4,887)	(7,036)	(3,703)
	7,625,154	5,125,362	7,129,742

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Selected Explanatory Notes to the Interim Financial Results

Figures in Rand	Group		
	31 August 2021 Unaudited	28 February 2021 Audited	31 August 2020 Unaudited

4. Share capital

Authorised

400 000 000 Ordinary no par value shares	400,000,000	400,000,000	400,000,000
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In September 2021 the Company issued 2 500 000 ordinary shares with no par value at 80 cents per share to a private investor who was invited to submit an offer to subscribe for Heartwood Property shares. The aggregate subscription consideration was R2,000,000. The amount was received on 31 August 2021 and the shares was issued in the beginning of September 2021.

Reconciliation of number of shares issued:

Reported as at 01 March 2021	128,551,161	128,222,279	128,222,279
Issue of shares – ordinary shares	2,500,000	328,882	328,882
	131,051,161	128,551,161	128,551,161

Issued

131 051 161 (Feb 2021: 128 551 161) ordinary no par value shares	79,911,299	77,911,299	77,911,299
	79,911,299	77,911,299	77,911,299

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Selected Explanatory Notes to the Interim Financial Results

Figures in Rand	Group		
	31 August 2021 Unaudited	28 February 2021 Audited	31 August 2020 Unaudited
5. Interest-bearing borrowings			
Held at amortised cost			
Nedbank Limited	10,178,447	10,571,768	10,956,477
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:			
1) Existing loan: R14,000,000 first covering bond over the property described as Erf 661, Lanseria;			
a) Irrevocable guarantee of R1,357,500 from Abundant Media Proprietary Limited;			
b) 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 Limited – Development loan	-	-	36,590,628
The loan is secured over the property development described as Erf20, Lyme Park Township in note 2. Limited sureties have been provided by Heartwood Properties Proprietary Limited to the value of R36,580,000.			
During the development of the property the loan carried interest at the prime overdraft rate less 0.25% per annum.			
No capital payments were required during the first 13 months after which the loan was consolidated to the primary Standard Bank facility.			
Standard Bank Limited	84,100,871	89,132,238	66,682,893
The loan bears interest at the prime overdraft rate less 0.75%. The interest at period end was 6.25% per annum. This loan is repayable in monthly capital installments with a bullet payment on 31 October 2023.			
The property portfolios of Velvet Moon Properties 93 Proprietary Limited, Fargofer Proprietary Limited and Utter Velvet Proprietary Limited have been pledged as security (note 2).			
Nedbank Limited - VAT Facility	1,152,566	403,422	-
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 2021 Unaudited	28 February 2021 Audited	31 August 2020 Unaudited
5. Interest-bearing borrowings (continued)			
Nedbank Limited - Development loan			
The loan is secured over the property under development described as Erf 19150, Somerset West.	24,760,590	3,045,482	-
During the development of the property the loan is carrying interest at prime, and on completion prime overdraft rate less 0.25% per annum.			
During the construction period only, interest is 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.			
Management has assessed the likelihood of the guarantee being called on to be low based on the financial position of the company.			
Nedbank Limited	9,010,592	9,317,424	9,619,060
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.			
The loan carries interest at prime overdraft rate less 0.25% per annum.			
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	124,047	119,759	116,818
The loan is unsecured, bears interest at the prime rate and is repayable on demand.			
	129,327,113	112,590,093	123,965,876
Split between non-current and current portions			
Non-current liabilities	126,571,362	108,645,351	120,774,065
Current liabilities	2,755,751	3,944,742	3,191,811
	129,327,113	112,590,093	123,965,876

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Selected Explanatory Notes to the Interim Financial Results

Figures in Rand	Group		
	31 August 2021 Unaudited	28 February 2021 Audited	31 August 2020 Unaudited
6. Revenue			
Rental income (Straight-line basis)	9,318,170	16,934,679	7,642,827
Lease incentive amortisation (Straight-line basis)	(117,638)	(253,001)	(126,500)
Straightlining lease adjustment (Straight-line basis)	49,342	3,890,928	2,835,785
Recoveries: Electricity, water, refuse, rates and taxes (over time)	1,909,099	3,810,056	2,118,766
Sale of inventory (at a point in time)	-	15,289,350	-
	11,158,973	39,672,012	12,470,878
7. Operating profit (loss)			
Operating profit for the period is stated after recognising the following, amongst others:			
Auditor's remuneration - external			
Audit fees	530,000	680,000	680,000
Remuneration, other than to employees			
Administrative and managerial services	90,312	275,786	38,994
Consulting and professional services	583,850	1,214,937	460,027
Secretarial services	86,650	143,875	75,071
	744,829	1,634,598	574,092
Employee costs			
Short-term employee benefits	1,816,038	4,099,259	1,643,486
Long term incentive scheme	-	642,069	-
Total employee costs	1,816,038	4,741,328	1,643,486
Leases			
Operating lease charges			
Premises	125,428	238,756	71,088
Depreciation and amortisation			
Amortisation of investment property tenant installations	397,180	415,414	468,006
Depreciation of property, plant and equipment	24,903	60,764	26,513
Total depreciation and amortisation	422,083	476,178	494,519
Movement in credit loss allowances			
Trade and other receivables	243,168	138,359	-

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Figures in Rand	Group		
	31 August 2021 Unaudited	28 February 2021 Audited	31 August 2020 Unaudited
7. Operating profit (loss) (continued)			
Other			
Accounting fees	371,749	602,472	163,736
Levies	899,465	1,820,572	977,228
Listing costs	84,716	141,673	86,774
Municipal expenses	2,058,923	3,192,925	1,473,303
Travel - local	7,211	10,402	3,398

8. 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 2021.