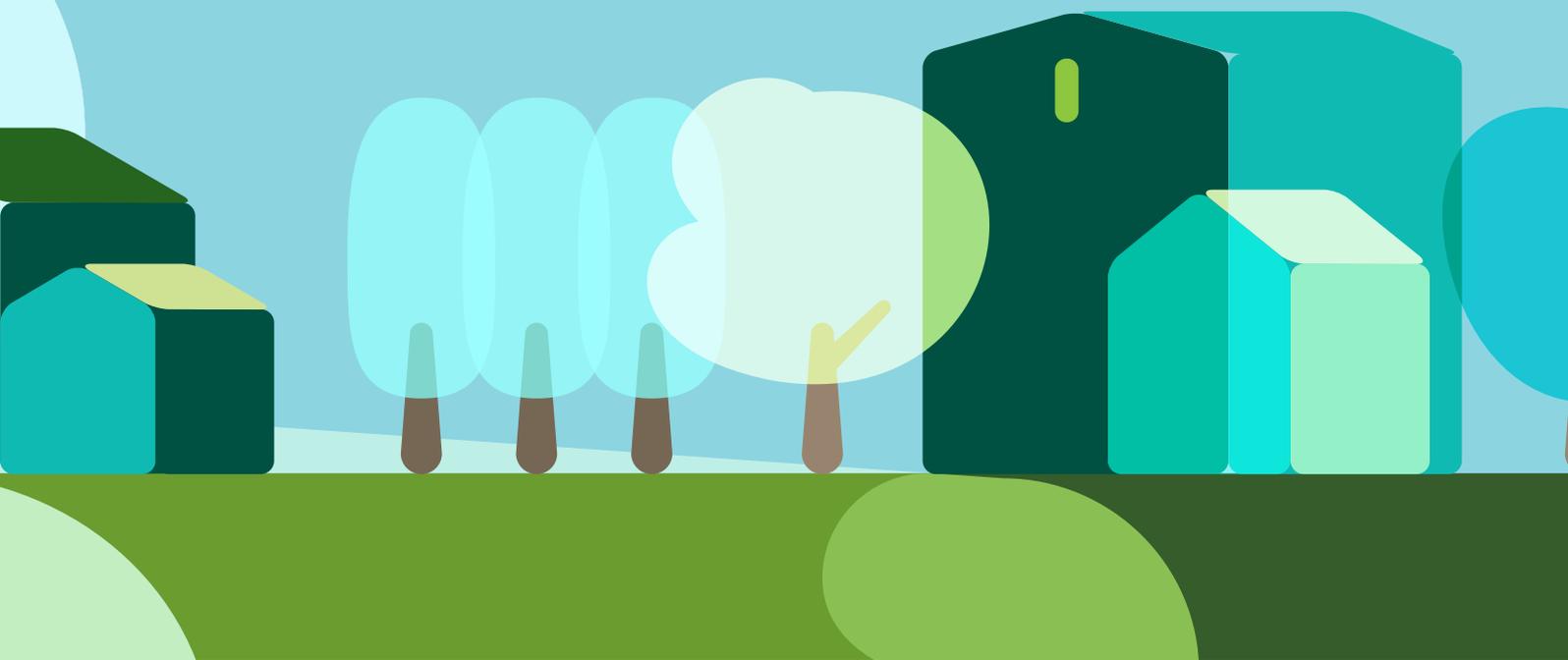


# Integrated Report 2016



**TRANSCEND**  
Residential Property Fund



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# About this report

This integrated report presents the operational and financial performance of Transcend Residential Property Fund Limited (“Transcend” or “the company”) for the period from 1 July 2016 to 31 December 2016. It includes a range of financial and non-financial disclosures, performance measures and reviews over the period, providing a concise insight into the business, growth strategy and risks facing the company.

The purpose of this report is to provide stakeholders with relevant information in order to enable them to objectively assess Transcend’s ability to create and sustain value in the future.

This report also provides information on the company’s corporate governance principles, as well as its commitment to social, environmental and economic objectives.

## Framework applied

The framework applied in this report is in accordance with best practice and applies the principles of the following:

- › King Report on Governance for South Africa 2009 (“King III”);
- › JSE Limited (“JSE”) Listings Requirements; and
- › Companies Act 71 of 2008, as amended (“Companies Act”).

The financial information provided in the annual financial statements set out on pages 38 to 71 has been prepared in accordance with International Financial Reporting Standards (“IFRS”), SAICA’s Financial Reporting Guides as issued by the Accounting Practices Committee, the JSE Listings Requirements and the Companies Act.

A register of all 75 King III principles and the extent of Transcend’s compliance therewith is available on Transcend’s website at [www.transcendproperty.co.za](http://www.transcendproperty.co.za).

**Report published:** 25 May 2017

## Forward-looking statements

This integrated report may contain certain forward-looking statements concerning Transcend’s operations and future financial performance. Whilst these statements reflect best estimates of management and its Board of Directors, such views inherently contain uncertainties around known and unknown risks facing the company. As such, no assurance can be given and no representation or warranty expressed as to the accuracy or completeness of such views or statements. Forward looking information has not been reviewed or reported on by the external auditors.

## Assurance

The Board of Directors (“the Board”) is responsible for preparing the annual financial statements in accordance with IFRS, the JSE Listings Requirements and the Companies Act. Over and above its regulatory reporting obligations, the company strives to present disclosures that are useful and informative to stakeholders.

The financial statements set out on pages 48 to 71 were independently audited by the company’s external auditors KPMG, Inc.

## Board responsibility statement

The Board acknowledges its responsibility to ensure the integrity of this integrated report for the 2016 financial year. The Board has accordingly applied its judgement and in its opinion this integrated report addresses all material matters, and offers a holistic view of the performance of Transcend. The Board is working towards full compliance with the IR framework.

The Board authorised the integrated report for publication on the 24 May 2017.



**Robert Emslie**  
Chairman

# 2016 performance overview

NAV  
**R9.78**  
 PER SHARE

FY2016  
**5.61 cents**  
 DISTRIBUTION PER SHARE

AVERAGE OCCUPANCY  
**96%**  
 ON STABILISED PORTFOLIO

COST-TO-INCOME RATIO  
**28%**  
 CALCULATED ON A NET BASIS

## KEY RATIOS

### NAV per share (Rand)

31 December 2016	<b>9.78</b>
16 November 2016*	9.38

### LTV (%)\*\*

31 December 2016	<b>44</b>
16 November 2016*	47

### Net cost-to-income ratio (%)\*\*\*

31 December 2016	<b>28</b>
16 November 2016*	29

\* Key ratios as per Listing Prospectus issued on 16 November 2016.

\*\* The loan-to-value ratio ("LTV") is calculated by dividing interest-bearing borrowings (net of cash and cash equivalents) by the total investment property.

\*\*\* For the calculation of net ratios, utility recoveries are excluded from both income and expenses.



# Who we are

Transcend listed on the Alternative Exchange (“AltX”) of the JSE Limited on 1 December 2016 in the Financial Services — Real Estate Investment Trust (Residential REITs) sector. Transcend’s country of operation is the Republic of South Africa.

The primary business of Transcend is focused on acquiring and managing income-generating residential properties, with a focus on housing opportunities that are affordable, lifestyle enhancing and located in high growth urban areas. Transcend currently holds a portfolio of 13 properties, comprising 2 472 units, located primarily in Gauteng, as well as the Western Cape and Mpumalanga. These properties were acquired effective 1 October 2016.

The properties differ from conventional inner-city residential housing in that they are predominantly two- and three-storey walk-up apartments, strategically located in desirable neighbourhoods, and often equipped with lifestyle-enhancing facilities. Most properties are less than six years old and hence tend to have a high underlying capital value. This results in performance at lower rental yields than inner-city properties, and in the view of the Board, has greater potential for capital appreciation. The company has majority ownership of units on all properties.

Globally, the residential REIT market is fairly sophisticated, given that residential assets have the ability, over time, to be less volatile than other classes of real estate.

Transcend’s strategy is to invest in the affordable housing market, which is one of the few market segments in South Africa in which demand exceeds supply. This shortage is expected to continue far into the future, given the increasing trend in South Africa towards urbanisation. Transcend therefore offers investors exposure to a defensive asset class, that delivers housing to a heavily under-serviced portion of the real estate market.

Transcend aims to achieve consistent growth in dividends by maximising the performance of its property portfolio through inflation-linked rental escalations, and efficiencies in property and asset management.

# R1.19bn

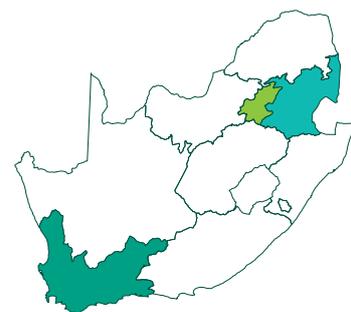
**ASSET VALUE**

# 2 472

**UNITS**

# 13

**PROPERTIES**



**LOCATED IN GAUTENG,  
WESTERN CAPE AND  
MPUMALANGA**

# Our vision and mission

## Vision

Transcend's vision is to grow the existing portfolio through the acquisition of open market rental properties and portfolios across five provinces in South Africa.

A preliminary pipeline of stabilised rental properties has been identified that could be considered for acquisition, consisting of approximately 1 700 units with a total value in the order of R900 million, demonstrating the immediate opportunities available for portfolio expansion.

## Mission

Transcend's mission is to maximise the performance of the initial portfolio, and establish a stable and consistent track record of dividend growth by leveraging off the experience and expertise of its property and asset management service providers.

Transcend intends to pursue a migration of its listing to the Main Board of the JSE in the medium term, in order to benefit from improved liquidity and a more diverse shareholder spread.

## INVESTMENT THESIS

Transcend provides investors with exposure to a geographically diverse, well-managed and well-maintained portfolio of properties which are expected to return inflation-linked rental escalations over the long term, whilst also providing investors with the security of well-located, quality

underlying capital assets which are expected to appreciate over time. Residential rental housing is a unique, defensive investment which has the potential to act as an inflation hedge over the long term, returning real growth in distributions.

Transcend is focused on 'value add' initiatives to improve performance on the existing portfolio:

**Attracting and retaining quality tenants**

**Improving recoveries on properties**

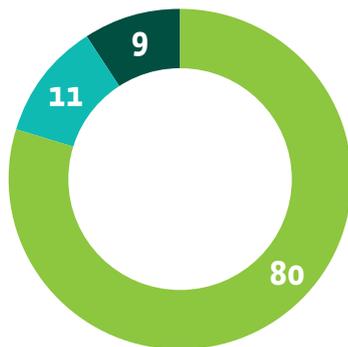
**Strategic capex investment for better long-term performance**



# Portfolio at a glance

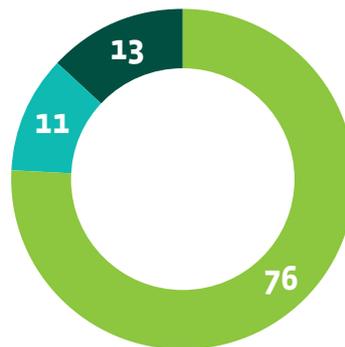
**GEOGRAPHICAL PROFILE BY REVENUE (%)**

■ GAUTENG ■ WESTERN CAPE ■ MPUMALANGA



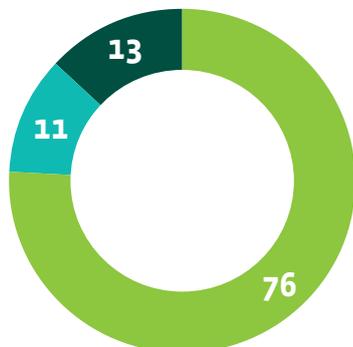
**GEOGRAPHICAL PROFILE BY GROSS LETTABLE AREA (GLA)**

■ GAUTENG ■ WESTERN CAPE ■ MPUMALANGA



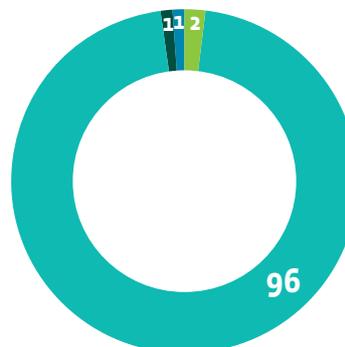
**GEOGRAPHICAL PROFILE BY NUMBER OF UNITS (%)**

■ GAUTENG ■ WESTERN CAPE ■ MPUMALANGA



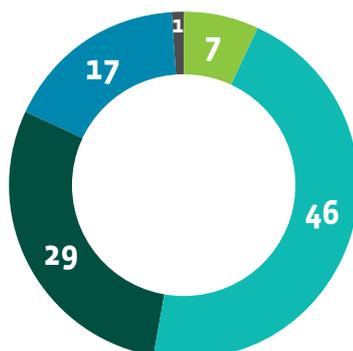
**UNIT PROFILE (%)**

■ 1 BED 1 BATH ■ 2 BED 1 BATH  
■ 2 BED 2 BATH ■ 3 BED 2 BATH



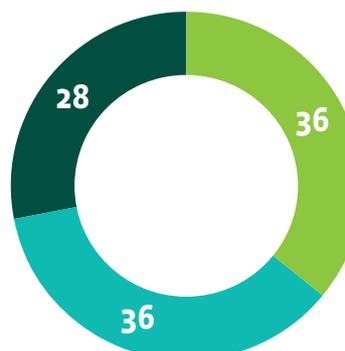
**LEASE EXPIRY PROFILE (%)**

■ VACANCY ■ MONTHLY ■ PRIOR TO 30.06.2017  
■ PRIOR TO 31.12.2017 ■ PRIOR TO 31.12.2018



**AVERAGE MONTHLY PROPERTY EXPENSES (%)**

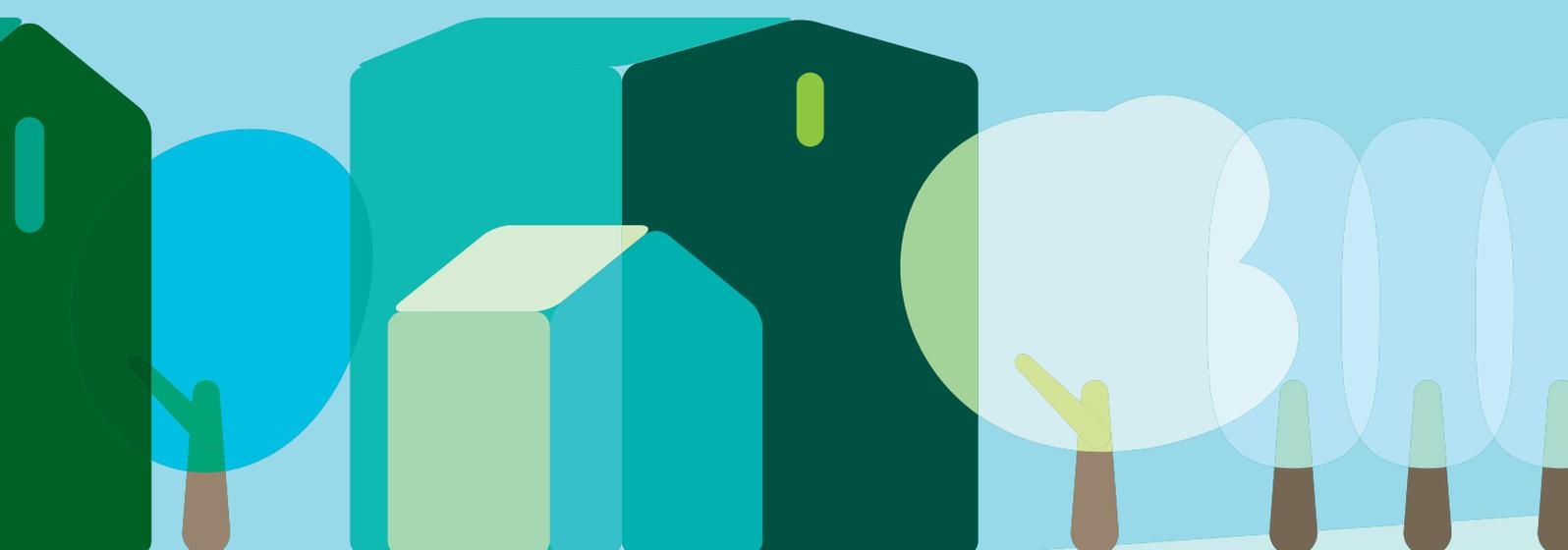
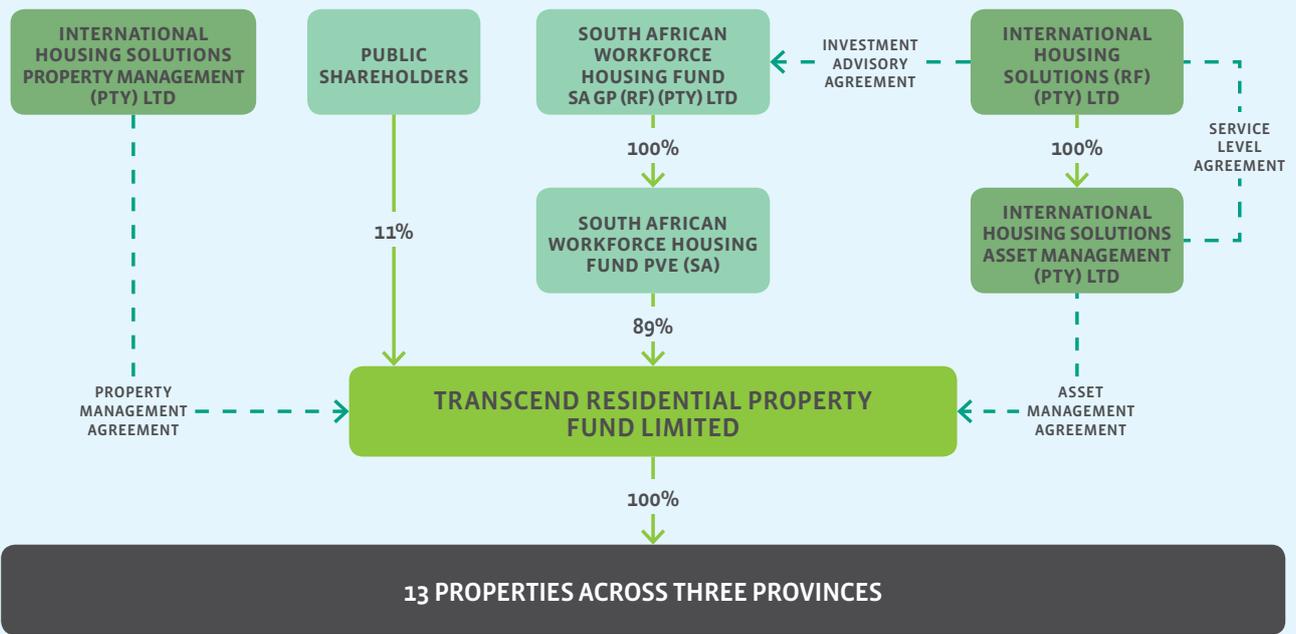
■ UTILITIES ■ OPERATIONAL ■ ADMIN



› The average term of a tenant's stay is approximately 14 months.  
› 46% of tenants are on month-to-month leases, versus 53% on leases that expire within the next 12 months.

› Average cost per month is R1 320 per unit, or a cost ratio of 28.2%.  
› Property expenses are split between utilities (36%), operations (36%) and administration (28%).

# Group structure



# Related parties

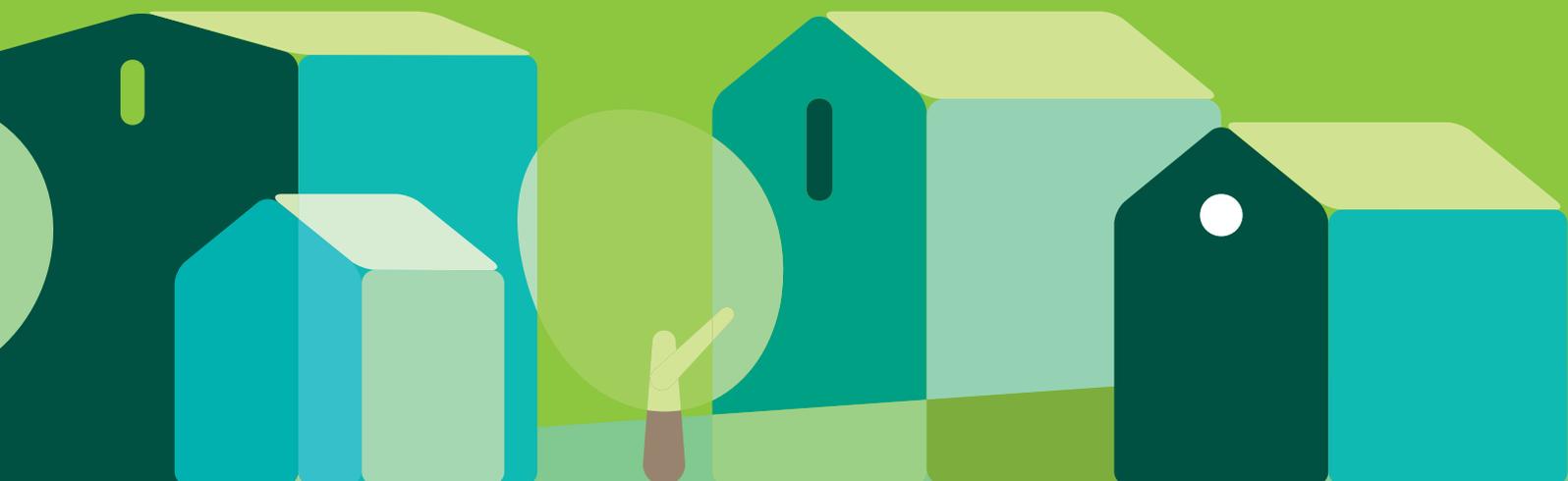
89% of Transcend's shares are currently held by the South African Workforce Housing Fund PVE (SA) ("SAWHF"), a South African en commandite partnership ("the Partnership"). Transcend does not have any subsidiaries.

## BACKGROUND

International Housing Solutions Asset Management (Pty) Ltd ("IHS AM") manages Transcend in terms of an asset management agreement which became effective on 1 October 2016. Based on the size of the portfolio, this is a more cost-effective approach than performing this function internally. IHS AM is wholly owned by International Housing Solutions (RF) (Pty) Ltd ("IHS"), and in turn, IHS AM outsources its main asset management functions to IHS in terms of a service level agreement. The property management function of the company is outsourced on market related terms to International Housing Solutions Property Management (Pty) Ltd ("IHS PM").

## IHS PM

A property management agreement was entered into by Transcend and IHS PM on 16 October 2016. IHS PM's functions as property manager include, inter alia, managing, letting and lease agreements, collection of income, credit control, electricity and water accounts, all repairs and maintenance, security, cleaning services, as well as instigating legal proceedings (subject to prior written consent of Transcend), preparing draft budgets, financial reporting and dealing with local authorities. Transcend pays IHS PM property management fees, calculated at between 6% to 7% of the gross cash collected from tenants on a monthly basis, including rent and recoveries.



## IHS HISTORY

IHS has successfully managed residential property investments since 2007. The role of IHS includes seeking new investment opportunities for the company through its strong network and deal-making capabilities. IHS has a proven track record of sourcing and stabilising properties, which will be utilised for the benefit of Transcend. Transcend will also consider ways of optimising the performance of its existing assets through refurbishments, alterations and re-tenanting. Transcend pays IHS an annual asset management fee, calculated as 0.40% (excluding VAT) of the enterprise value of the company. IHS also currently provides asset management services to: SAWHF, IHS Fund II SA sleeve, IHS Fund II SSA sleeve and the International Housing Solutions Residential Partners 1 (RF) (Pty) Ltd ("Res 1").

26 400

UNITS/STANDS COMPLETED/UNDER  
CONSTRUCTION SINCE 2007

18 200

UNITS/STANDS SOLD SINCE 2007

R400 000  
to R700 000

UNIT PRICE RANGES

R4.3 billion

ASSETS UNDER MANAGEMENT

54

INVESTMENTS IN REAL ESTATE PROJECTS

7 200

UNITS IN RENTAL PORTFOLIO



Targeting lower to middle  
income affordable market



Properties located in five  
provinces in South Africa

# Business model

## INPUTS

### Financial capital

- › Public share offering
- › Regular monthly rental
- › Debt funding

### Manufactured capital

- › Bricks and mortar of our properties

### Intellectual capital

- Extensive market network and experience of:
  - › IHS Property Management
  - › IHS Asset Management

### Social and relationship capital

- › Active management of stakeholder relationships
- › Ethics and human rights



## BUSINESS ACTIVITIES

Effective management of assets and expansion of existing property portfolio



## OUTPUT

Delivering quality affordable housing to middle-income households



## OUTCOMES

### Financial capital

- › Increased equity funding by R49 million
- › NOI of R24,3 million
- › Debt funding of R547,5 million
- › Dividend distribution of 5.6 cents per share

### Manufactured capital

- › Affordable, well-located and lifestyle enhancing residential housing

### Intellectual capital

- › Efficient asset and property management which maximises portfolio performance

### Social and relationship capital

- › Better community relations
- › An ethical business that respects the rights of its employees and the communities in which it operates

# Strategic objectives



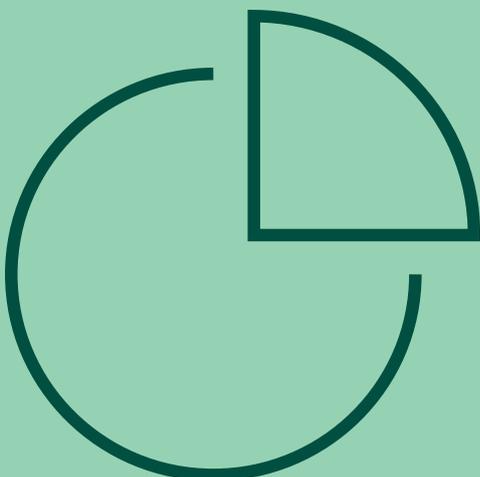
## LEVERAGING RESIDENTIAL FUND EXPERTISE

As one of the few specialist REITs with a residential-only property portfolio, Transcend has been a driver of the institutional residential rental market in South Africa. Transcend has focused on medium density secure estates, with lifestyle amenities.



## DIVIDEND GROWTH

Consistent growth in dividends achieved through improving performance on the portfolio with rental escalations and hands-on asset and property management.



## HARNESSING A DEFENSIVE MARKET SEGMENT

Globally, residential REITs have a track record of being defensive, protecting against inflation over the long term and experiencing less volatility than other real estate sectors. With an ongoing trend towards urbanisation in South Africa, the demand for quality, affordable rental properties will continue to exceed supply. This will ensure the sustainability of Transcend's income-generating ability in the future.

# Board CVs

## Executive Directors

### Rob Wesselo (52)

#### CHIEF EXECUTIVE OFFICER

LLB (University of Witwatersrand)

Committees: Investment Committee, Social and Ethics Committee

Rob was appointed CEO of Transcend on 8 July 2016. He has been responsible for the South African Operations of IHS since 2010. In this role, he has been responsible for overseeing the sourcing of investments, structuring, and negotiating deals with developers and managing the operations of IHS in South Africa. Before joining IHS, Rob was the Head of Commercial Property Finance at ABSA Business Bank. He has held other positions such as Commercial Director at Pangbourne Properties and Head of Listed Property Funding at RMB.

### Solly Mboweni (47)

#### CHIEF OPERATIONS OFFICER

BCom and Postgraduate Diploma in Property Studies (University of Witwatersrand)

Committee: Social and Ethics Committee (Chairman)

Solly was appointed as COO for Transcend on 1 October 2016. Since 2014, Solly has been head of housing operations at IHS, with direct responsibility for the activities of new business and the asset management of the rental portfolio.

Prior to joining IHS, Solly was at ABSA for 4 years in a number of senior positions and managed the asset management and property development departments at Liberty Properties Limited. Solly also recently served as the vice president of SAIBPP (South African Institute of Black Property Practitioners).

### Dave Lange (33)

#### CHIEF FINANCIAL OFFICER

BCom (Acc) and BCom (Acc) (Hons) (University of Johannesburg), CA (SA), MSc (Property Studies) (University of Cape Town)

Committee: Social and Ethics Committee

Dave was appointed as CFO of Transcend on 10 August 2016. Dave qualified as a Chartered Accountant in 2010 and joined IHS in 2012, initially as a dealmaker.

Since joining IHS, Dave has accumulated a wealth of experience in the affordable housing market and exposure to all aspects of the IHS business, including roles in the asset development management team and as portfolio manager.

Prior to joining IHS, Dave completed his SAICA training at Deloitte and then worked as a Manager for two years.

## Non-executive directors

### Michael Falcone (54)

BA (Economics) (Dartmouth College), MBA (Harvard Business School)

Committees: Investment Committee, Remuneration Committee (Chairman)

Mike was appointed as a non-executive director of Transcend on 10 August 2016. He is the Chief Executive Officer and president of MMA Capital Management LLC, a position he has held since 1 January 2005. MMA Capital Management is a diverse real estate finance company specialising in the affordable housing and clean energy segment and is the sole shareholder of IHS.

Prior to his involvement with MMA Capital Management LLC, Mike served as senior vice president and partner at the Shelter Group, a USA based real estate development and property management firm.

## Cathal Conaty (52)

BA (University College, Dublin, Ireland), MBA (IESE, Spain)  
 Committees: Investment Committee (Chairman), Social and Ethics Committee

Cathal was appointed as a non-executive director of Transcend on 10 August 2016. He has served in a variety of senior roles at IHS since its founding in 2005. He is currently Chairman of the IHS Investment Committee and responsible for portfolio management and fund administration. He brings extensive experience in residential property investment, spanning portfolio management, deal structuring and negotiation, financial engineering and the management of major renovation projects. In various positions in the past 15 years, he has set up and managed private investment funds, served as a regional vice president of property management specialising in the turn-around of troubled properties, and represented investors' interests in a variety of market-rate and subsidised properties.

## Independent non-executive directors

### Faith Khanyile (49)

BA (Economics) (Wheaton College, USA), MBA (Finance) (Bentley Graduate School of Business, USA)

Committees: Audit and Risk Committee, Remuneration Committee

Faith was appointed as an independent director of the company on 10 August 2016.

Faith is the CEO of WDB Investment Holdings (WDBIH) and has been associated with WDBIH for over 18 years as one of its founding members.

She spent 12 years with Standard Bank, Corporate & Investment Bank ("CIB") from 2001 to 2013 in various senior management and executive roles, including being the Head of Corporate Banking (2008 – 2013).

## Michael Aitken (59)

BA (University of Cape Town), LLB (University of KwaZulu-Natal)  
 Committees: Audit and Risk Committee (Chairman), Investment Committee

Michael was appointed as an independent director of Transcend on 10 August 2016. Michael has over 30 years' experience in property-related activities, with specific expertise in asset and fund management related to directly held and listed property vehicles. Michael has been a non-executive director of Strategic Real Estate Managers (Pty) Ltd and Emira Property Fund Limited since April 16, 2007. He is also currently a director of St Albans Property Investments (Pty) Ltd and is the sole director of Advest Capital Managers. Michael also served as a non-executive director of Hyprop Investments Limited from August 2000 to June 2013, acting as Chairman from August 2007 to June 2013.

## Robert Emslie (59)

### CHAIRMAN

BCom (Law) and BCom (Acc) (Hons) (Rand Afrikaans University), CA(SA)

Committees: Audit and Risk Committee, Investment Committee, Remuneration Committee

Robert was appointed as Chairman and an independent director of Transcend on 10 August 2016.

Robert serves on a number of boards, including as an independent non-executive Chairman at Silverbridge Holdings Limited and an independent director of New Europe Property Investments Plc. He is also on the boards of a number of unlisted companies.

# Chairman and Chief Executive Officer's report

## Economic environment

2016 will forever be remembered for its major global and local political events. While South Africans dealt with the haphazard firing of the finance minister in December 2015, the rest of the world faced its own challenges with some notable shifts in the geopolitical landscape in the form of Brexit and the election of Donald Trump, to name a few.

The unstable local political landscape in early 2016 caused by the firing of the minister, coupled with a general slowdown in the global economy, saw demand for local commodities drop sharply and ultimately led to a contraction of 1.2% in the country's GDP for the first quarter of 2016.

In August 2016, South Africa held its fifth municipal election. The local polls were widely regarded as a turning point in the political landscape of South Africa, as the dominance of the ruling party was greatly contested, while coalition and minority governments became more widespread.

But despite the positive fruits of a democratic local election, a lacklustre performance in the mining and manufacturing sectors caused GDP to contract again in the fourth quarter of 2016 and saw South Africa's economy grow by a marginal 0.3% for the full 2016 year, representing the weakest pace of growth in seven years.

In late February 2017, finance minister Pravin Gordhan presented the 2017 budget review, which was generally well received by the business community. However, the shock events of late March 2017, which saw the axing of the finance minister as part of the President's cabinet reshuffle, resulted in two credit rating agencies downgrading the country's sovereign debt to junk status and again sent the country's political and economic landscapes into turmoil. Although the new Treasury team appears to remain committed to fiscal consolidation, this has not prevented speculation that the current minister is set to push for policy reform which could negatively impact business confidence and international investment.



**Robert Emslie**  
Chairman

There is no doubt that the recent downgrades and political instability have set a challenging local economic scene in 2017. But, as the latest growth figures out of China and the US begin to show an uptick in momentum, it remains to be seen how the remainder of the year will turn out locally from both a political and economic perspective.

## Affordable housing rental market

After 10 years of focused development, investment and management in the affordable housing market in South Africa, IHS took the next logical step of transferring a portion of its assets under management into the listed environment, in a move to supplement the growing exposure of residential REIT's in South Africa.

The listing saw Transcend bring a small, quality, affordable residential rental REIT to the AltX on 1 December 2016. As the appointed asset and property managers of Transcend, IHS and IHS PM are confident that their expertise in this market will, together with their broad reach, provide a solid foundation from which to grow the portfolio in a responsible manner.

### **TRANSCEND'S STRATEGY WILL BE TO ADD QUALITY, AFFORDABLE, WELL-LOCATED PROPERTIES THAT ARE DESIRABLE FROM A TENANT PERSPECTIVE.**

Although Transcend has undoubtedly been born into a difficult world given the current political and economic environment in South Africa, management is confident that the defensive nature of the asset class and the strong management capabilities of both IHS and IHS PM, will allow the company to deliver strong results.

The current low growth and difficult credit environment requires very hands-on management, as well as careful attention to tenants and management is satisfied with the way that IHS and IHS PM have shown the ability to adapt in this market.

**Rob Wesselo**  
Chief Executive Officer



## Public listing and trading activity

The final capital raised during the initial public offering ("IPO") of Transcend was R48.6 million through the issue of 7 200 000 shares at R6.75 per share. This was less than the R51.8 million at R7.40 per share as per the prospectus, and was largely as a result of the lower offer price of the shares.

The IPO resulted in the sale of 10.95% of the total share capital of Transcend. The price was determined by demand, size and liquidity of the share. As at 31 December 2016, 6 510 shares had traded at a volume weighted average share price ("VWAP") of R6.61 per share. The share price at 31 December 2016 was up 18.5% to R8 from R6.75 at listing.

The shares are expected to remain fairly illiquid for the remainder of 2017, however, active plans are in place to improve liquidity for shareholders in the medium term.

## 2016 performance

Despite tough economic conditions, the stabilised portfolio's occupancy remained resilient ending the year at 96%. Although this remains slightly below operational expectation, several buildings are currently operating between 98% and 100% and management is confident that average occupancy levels for the portfolio will be between 95% and 98% for 2017.

Pleasingly, a bulk rental deal at Acacia Place (Spring Valley Rental) was concluded, which was the Fund's last remaining property in lease-up at 31 December 2016 and saw that property reaching 100% occupancy on 1 April 2017.

**WE WANT TO THANK OUR SHAREHOLDERS FOR THEIR CONFIDENCE IN TRANSCEND'S POTENTIAL AND WE REMAIN COMMITTED TO PRESERVING AND CREATING ECONOMIC VALUE FOR ALL OUR PROVIDERS OF CAPITAL THROUGH MAINTAINING AND IMPROVING THE PERFORMANCE OF OUR PROPERTY PORTFOLIO.**

## We are pleased with the following financial highlights for the period:

- › We acquired 13 quality properties which were successfully transferred effective 1 October 2016
- › R48.6 million was raised through a private placement resulting in a successful listing on the AltX on 1 December 2016
- › Profit and total comprehensive income for the period amounted to R16.52 million, while the forecast as per the Listing Prospectus was a net loss of R9.92 million
- › The total assets as at 31 December 2016 amounted to R1.23 billion and the forecast as per the Listing Prospectus was R1.17 billion
- › We distributed R3 718 440 to shareholders for the one month that the company was publicly listed. The dividend of 5.61 cents per share was higher than the forecast dividend of 2.10 cents per share as per the Listing Prospectus as a result of once off items

## Looking forward

It still remains to be seen whether the South African economy will start recovering from the weak levels of growth experienced in the past 12 months. This, coupled with the recent downgrade of the country's sovereign foreign debt, will make for a challenging year ahead and is likely put rental growth and tenant affordability under pressure. However, given the depth of the affordable rental market we remain upbeat about the strong demand for rental housing.

The focus for 2017 will be on achieving budgeted profits and distributions in line with the guidance provided in the Listing Prospectus. We also have active plans in place to grow the portfolio.

## Pipeline and growth

Transcend will leverage off IHS' strong network and deal making capability for future acquisitions. IHS is extensively experienced in sourcing and stabilising properties, which will be used to the benefit of Transcend.

Going forward management expects Transcend's growth to come from opportunities both inside and outside of the IHS managed Funds. In the medium term this will improve liquidity, lower gearing, and have a positive impact on performance. Ultimately the plan is for these acquisitions to lead to a migration to the Main Board of the JSE.

Transcend has identified an initial pipeline of stabilised rental properties for acquisition that includes approximately 1 700 units, estimated at R900 million. Apart from the Transcend portfolio, IHS currently manages approximately 4 400 quality affordable rental properties.

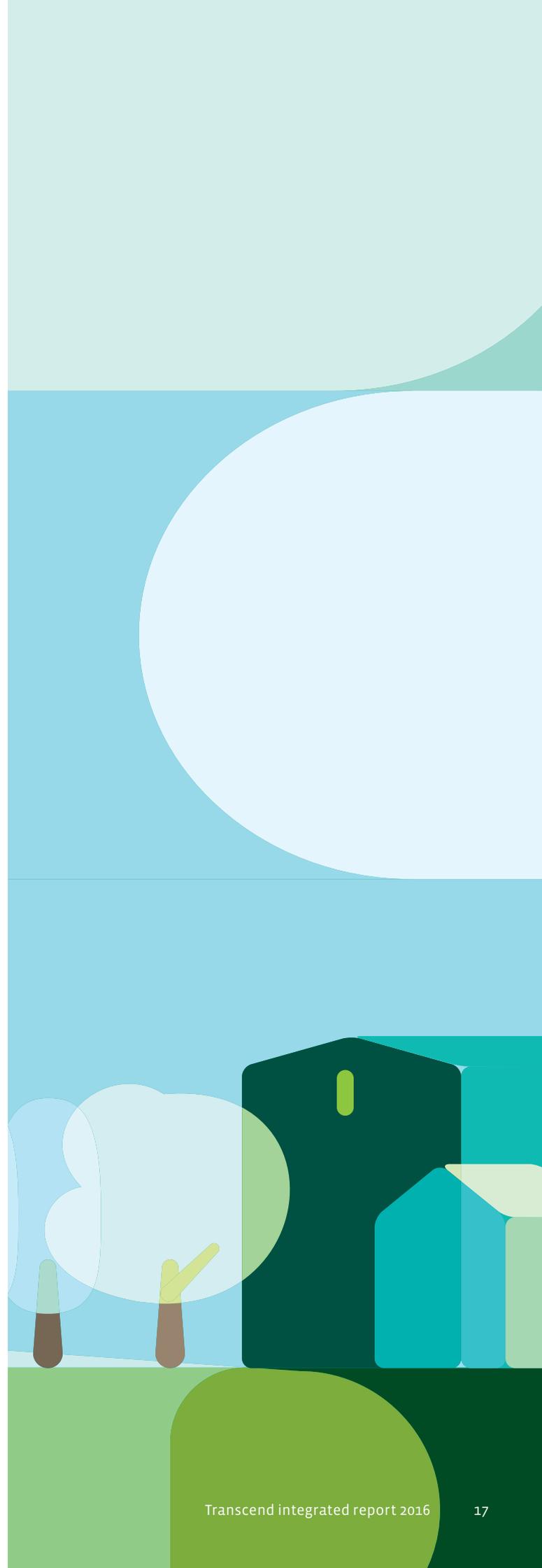


**Robert Emslie**  
Chairman



**Rob Wesselo**  
Chief Executive Officer

Johannesburg  
24 May 2017



# Property portfolio

As at 31 December 2016



01

# 67 on 7th

● Edenvale, Gauteng

**157**  
UNITS  
OWNED



**R91.8m**  
PROPERTY VALUE

**204**  
UNITS

**February 2016**  
COMPLETED

**0%**  
VACANCY AS AT 31 DECEMBER 2016

**7.51 months\***  
AVERAGE LEASE TERM

**8.25%**  
CAPITALISATION RATE

\* The below average lease term is as a result of this property recently being in lease up.

02

# Acacia Place

● Spring Valley, Mpumalanga

**325**  
UNITS  
OWNED



**R133.8m**  
PROPERTY VALUE

**325**  
UNITS

**7.94 months\*\***  
AVERAGE LEASE TERM

**May 2016**  
COMPLETED

**9.00%**  
CAPITALISATION RATE

**29.85%\***  
VACANCY AS AT 31 DECEMBER 2016

\* This property was still in lease up at year end but is fully occupied as at 1 April 2017.

\*\* The below average lease term is as a result of this property recently being in lease up.

03

# Alpine Mews

● Erste Rivier, Western Cape

90  
UNITS  
OWNED



**R32.1m**  
PROPERTY VALUE

**90**  
UNITS

**May 2013**  
COMPLETED

**5.56%**  
VACANCY AS AT 31 DECEMBER 2016

**13.48 months**  
AVERAGE LEASE TERM

**9.25%**  
CAPITALISATION RATE

04

# Ekhaya Fleurhof

● Soweto, Gauteng

**162**  
UNITS  
OWNED



**R65m**  
PROPERTY VALUE

**162**

UNITS

**February 2013**

COMPLETED

**4.32%**

VACANCY AS AT 31 DECEMBER 2016

**18.85 months**

AVERAGE LEASE TERM

**9.25%**

CAPITALISATION RATE

05

# Ekhaya Jabulani

● Soweto, Gauteng

244  
UNITS  
OWNED



**R88.6m**  
PROPERTY VALUE

**244**  
UNITS

**February 2014**  
COMPLETED

**4.10%**  
VACANCY AS AT 31 DECEMBER 2016

**15 months**  
AVERAGE LEASE TERM

**9.50%**  
CAPITALISATION RATE

06

# Jackalberry Close

● Jansen Park, Gauteng

**252**  
UNITS  
OWNED



**R112.4m**  
PROPERTY VALUE

**252**

UNITS

**April 2014**

COMPLETED

**12.02%**

VACANCY AS AT 31 DECEMBER 2016

**9.96 months**

AVERAGE LEASE TERM

**8.50%**

CAPITALISATION RATE

07

# Kensington Place

Ferndale, Gauteng

56  
UNITS  
OWNED



**R33.8m**  
PROPERTY VALUE

**56**  
UNITS

**April 2012**  
COMPLETED

**1.79%**  
VACANCY AS AT 31 DECEMBER 2016

**16.57 months**  
AVERAGE LEASE TERM

**9.00%**  
CAPITALISATION RATE

08

# Molware

● Kosmosdal, Gauteng

**252**  
UNITS  
OWNED



**R135.9m**  
PROPERTY VALUE

**252**

UNITS

**Phase 1: September 2012**  
**Phase 2: September 2013**

COMPLETED

**4.37%**

VACANCY AS AT 31 DECEMBER 2016

**19.68 months**

AVERAGE LEASE TERM

**8.50%**

CAPITALISATION RATE

09

# Parklands

● Parklands, Western Cape

**187**  
UNITS  
OWNED



**R93.5m**  
PROPERTY VALUE

**187**

UNITS

**Phase 1: June 2012**  
**Phase 2: October 2012**  
**Phase 3: December 2012**

COMPLETED

**2.67%**

VACANCY AS AT 31 DECEMBER 2016

**15.86 months**

AVERAGE LEASE TERM

**R9.00%**

CAPITALISATION RATE

10

# Village Seven Stone Arch Estate

● Castleview, Gauteng

**114**  
UNITS  
OWNED



**R54.9m**  
PROPERTY VALUE

**114**

UNITS

**March 2012**

COMPLETED

**14.04%**

VACANCY AS AT 31 DECEMBER 2016

**18.06 months**

AVERAGE LEASE TERM

**8.25%**

CAPITALISATION RATE

11

# Terenure Estate

Kempton Park, Gauteng

350  
UNITS  
OWNED



**R210m**  
PROPERTY VALUE

**350**  
UNITS

**October 2012**  
COMPLETED

**2.29%**  
VACANCY AS AT 31 DECEMBER 2016

**17.92 months**  
AVERAGE LEASE TERM

**8.75%**  
CAPITALISATION RATE

12

# Theresa Park Estates

● Pretoria North, Gauteng

242  
UNITS  
OWNED



**R92.9m**  
PROPERTY VALUE

**242**

UNITS

**June 2012**

COMPLETED

**5.79%**

VACANCY AS AT 31 DECEMBER 2016

**15.44 months**

AVERAGE LEASE TERM

**8.50%**

CAPITALISATION RATE

13

# Tradewinds

Ferndale, Gauteng

85  
UNITS  
OWNED



**R44.8m**  
PROPERTY VALUE

**85**  
UNITS

**September 2011**  
COMPLETED

**0.00%**  
VACANCY AS AT 31 DECEMBER 2016

**21.18 months**  
AVERAGE LEASE TERM

**9.00%**  
CAPITALISATION RATE

# Corporate governance

**ULTIMATE CONTROL OF THE COMPANY RESTS WITH THE BOARD OF DIRECTORS (“THE BOARD”) WHILE THE EXECUTIVE MANAGEMENT TEAM IS RESPONSIBLE FOR THE MANAGEMENT OF THE COMPANY. TO ACHIEVE THIS, THE BOARD IS RESPONSIBLE FOR ESTABLISHING THE OBJECTIVES OF THE COMPANY AND SETTING A PHILOSOPHY FOR INVESTMENTS, PERFORMANCE AND ETHICAL STANDARDS. QUARTERLY BOARD MEETINGS ARE ARRANGED EVERY YEAR AND ADDITIONAL MEETINGS ARE CALLED SHOULD CIRCUMSTANCES REQUIRE IT.**

## Composition of the Board

The Board comprises eight directors, of which three are executive directors, three are independent non-executive directors and two are non-executive directors.

Apart from Michael Falcone, who is an American citizen and Cathal Conaty, who is an Irish citizen, all the directors are South African nationals.

## Chairman

The roles of the Chairman and Chief Executive Officer (“CEO”) are separate with the Chairman being independent.

## Chief Executive Officer

The Board has appointed Rob Wesselo as CEO. The Board has established a framework for delegation of authority and ensured that the role and function of the CEO has been formalised and that the CEO’s performance is evaluated against specified criteria on an annual basis.

## Balance of power

The company’s executive directors are involved in the day-to-day business activities of the company and are responsible for ensuring that the decisions of the Board are implemented in accordance with the mandates given by the Board.

The Board has ensured that there is an appropriate balance of power and authority at Board level such that no one individual or block of individuals dominates the Board’s decision making. The non-executive directors are individuals of calibre and credibility and have the necessary skills and experience to bring independent judgement on issues of strategy, performance, resources, standards of conduct and evaluation of performance.

## Summary of the Board Charter

The main functions of the Board as set out in the Board Charter are:

- > good corporate governance and implementation of the code of corporate practices and conduct as set out in the King III Report;
- > ensuring that the company performs at an acceptable level and that its affairs are conducted in a responsible and professional manner;
- > the adoption of strategic plans and ensuring that these plans are carried out by management;
- > monitoring of the operational performance of the business against predetermined budgets;
- > monitoring the performance of management at both operational and executive level;
- > ensuring that the company complies with all laws, regulations and codes of business practice;
- > ensuring a clear division of responsibilities at Board level to ensure a balance of power and authority in terms of company policies;
- > ensuring the integrity of the company’s integrated report;
- > appointing the Chief Executive Officer; and
- > establishing a framework for the delegation of authority.

### BOARD MEETINGS

During the financial period, the Board held three Board meetings.

Director	18 October 2016	22 November 2016	25 November 2016
Robert Emslie (Chairman)	✓	✓	✓
Michael Aitken	✓	✓	✓
Faith Khanyile	✓	✓	✓
Rob Wesselo	✓	✓	✓
Solly Mboweni	✓	✓	✓
Dave Lange	✓	✓	✓
Cathal Conaty	✓	✓	✓
Michael Falcone	✓	✓	✓

## Procedures for Board appointments

The Board has detailed the procedures for new appointments to the Board. Such appointments are to be formal and transparent and a matter for the Board as a whole.

## Rotation of directors

No director shall be appointed for life or for an indefinite period. The directors shall rotate in accordance with the following provisions:

- › Any director appointed during the year is required to have the appointment confirmed by shareholders at the next annual general meeting. At each annual general meeting, one third of the directors for the time being, or if their number is not three or a multiple of three, the number nearest to one third but not less than one third, shall retire from office, provided also that at least one third of the non-executive directors for the time being, or if their number is not three or a multiple of three, the nearest to one third, but not less than one third, shall retire from office.
- › The appointment of executive directors shall be terminable by way of a Board resolution.

## Directors' interests

The Board consists of eight directors three of which are independent non-executives. The Chairman, Robert Emslie, oversees the Board's functioning. The Chief Executive Officer, Rob Wesselo, leads the executive team and attends to the day-to-day functions of the business.

There are four directors with direct or indirect interests in Transcend shares in issue as at 31 December 2016 as disclosed below:

### DIRECTORS' INTERESTS IN SHARES

Directors	Beneficially held — directly %	Number of shares	Beneficially held — indirectly %	Number of shares	Total %	Number of shares
Cathal Conaty	—	—	0.0013	887	0.0013	887
Michael Falcone	—	—	0.0697	46 223	0.0697	46 226
Robert Emslie	0.0005	300	0.1502	99 600	0.1507	99 900
Rob Wesselo	0.0020	1 000	—	—	0.0020	1 000
<b>Total</b>	<b>0.0025</b>	<b>1 300</b>	<b>0.2212</b>	<b>146 713</b>	<b>0.2237</b>	<b>148 013</b>

*There has been no change in directors' interests between 31 December 2016 and the date of the approval of the annual financial statements.*

## Gender equality/diversity

The Board currently consists of one female director. As per the gender equality/diversity policy which was signed on 28 March 2017, the Board recognises the importance of promoting gender diversity and better decision-making at a Board level, which can be achieved through gender diversity.

Given the company's size and its relatively new establishment, the Board will not be setting voluntary targets at this point but will review this policy on a regular basis and make a conscious effort to drive diversity at a Board level by considering this policy at the time of the appointment of any future directors.

## Code of ethics

The Board is responsible for the strategic direction of the company. It sets the values that the company adheres to and has adopted a code of ethics that has been applied throughout the company. The current Board's diversity of professional expertise and demographics makes it highly effective with regard to Transcend's current strategies. The Board shall ensure that, in appointing successive Board members, the Board will continue to reflect, whenever possible, a diverse set of professional and personal backgrounds.

## Directors' declarations and conflict of interest

The Board determined a policy which details the manner in which a director's interest in a transaction must be determined and the interested director's involvement in the decision-making process. Real or perceived conflicts in the Board are managed in accordance with pre-determined policy used to assess a director's interest in transactions.

## Company secretary

The company secretary is Corpstat Governance Services (Pty) Ltd, an independent company secretarial practice. The Board is assisted by a suitably qualified company secretary, who has adequate experience, is not a director of the company and has been empowered to fulfil their duties. The Board reviews the company secretary's performance at least annually and the Board is satisfied that the company secretary maintains an arm's-length relationship with the Board and is sufficiently qualified and experienced to execute their required duties.

## Board committees

The Board has delegated certain functions to the Audit and Risk Committee, Remuneration Committee, Investment Committee and Social and Ethics Committee. The Board is conscious of the fact that such delegation of duties is not an abdication of the Board members' responsibilities. The various committees' terms of reference will continue to be reviewed annually.

External advisers and executive directors who are not members of specific committees may attend committee meetings by invitation, if deemed appropriate by the relevant committee (see diagram at the bottom of the page).

## Remuneration Committee

The Remuneration Committee comprises Michael Falcone, non-executive director and Chairman of the committee, Faith Khanyile, independent non-executive director and Robert Emslie, independent non-executive director. The CEO and CFO attend meetings by invitation, and are excluded from deliberations regarding their, or any other executive directors' remuneration.

Transcend is externally managed by IHS AM, a wholly-owned subsidiary of IHS. The executive directors and asset management staff are employed and remunerated by IHS or IHS related entities.

The property management staff are employed by IHS PM. The management of IHS PM and the required remuneration contracts and salaries and incentives are determined by IHS PM.

The committee monitors IHS's remuneration policies and practices to ensure that the company's strategic objectives are achieved and that IHS and IHS PM meet their KPIs. The committee considers the mix of regular salary remuneration, annual bonuses and incentive elements that meet the company's needs. Incentives are based on targets that are stretching, verifiable and relevant. Executive remuneration is determined annually with reference to industry benchmarks. Bonuses are linked to individual and company performance in accordance with predetermined parameters.

Remuneration of non-executive directors, who do not receive incentive awards, is reviewed and set by the committee for ultimate approval by shareholders.

The committee's responsibilities and duties will be governed by a charter and the committee will meet twice a year. No meetings have been held to date.

## Directors' remuneration

The remuneration of the Board for the financial period ending 31 December 2016 is set out in note 16 on page 64:

### GOVERNANCE STRUCTURE



## Appointment of Directors

The Board undertakes the role of a Nominations Committee and the selections, appointment and approval of new directors is therefore undertaken by the Board as a whole, in a formal and transparent manner, free from any dominance of any one particular shareholder. Any new appointees are required to possess the necessary skills to contribute meaningfully to Board deliberations and to enhance Board composition in accordance with recommendations, legislation, regulations and best practice.

## Audit and Risk Committee

The Audit and Risk Committee's membership comprises Michael Aitken, independent non-executive Chairman of the committee, Robert Emslie, independent non-executive director and Faith Khanyile, independent non-executive director. The members are all financially literate. Given that Robert Emslie is the Chairman of the Board, and a member of the Audit and Risk Committee, his dual role will be approved at every annual general meeting.

A detailed Audit and Risk Committee report commences on page 44 of this integrated report.

## Investment Committee

The Investment Committee comprises Cathal Conaty, non-executive director and Chairman of the committee, Robert Emslie, independent non-executive director, Rob Wesselo, Chief Executive Officer, Michael Falcone, non-executive director and Michael Aitken, independent non-executive director. All members of this committee have extensive experience and technical expertise in the residential property industry.

The Investment Committee's responsibilities and duties are governed by a charter. All acquisitions, disposals and capital expenditure will be considered and approved by the Investment Committee in accordance with pre-set limits.

## Report by the Investment Committee

The Investment Committee makes recommendations to the Board, which carries out the function of considering acquisitions and disposals.

The committee held its first meeting on 28 March 2017, with attendance by all its members.



**Cathal Conaty**  
Chairman: Investment Committee

Johannesburg  
24 May 2017

## Social and Ethics Committee

The Social and Ethics Committee comprises Cathal Conaty, non-executive director and Chairman of the committee, Rob Wesselo, Chief Executive Officer and Dave Lange, Chief Financial Officer. Solly Mboweni was elected to replace Cathal Conaty as Chairman through an ordinary resolution on 21 February 2017.

The Social and Ethics Committee is a statutory committee whose focus is to monitor compliance with labour legislation as well as Corporate Social Responsibilities ("CSR") and corporate citizenship.

The Social and Ethics Committee's responsibilities and duties will be governed by a charter.

## Report by the Social and Ethics Committee

The Social and Ethics Committee is committed to behaving ethically and contributing to economic development, while improving the quality of life of all its employees, customers and the communities in which Transcend operates.

The committee's sole focus is on people and property, and the company is acutely aware of the impact it has on the environment, on communities and on people. Transcend takes its CSR duties very seriously, and endeavours to treat its employees, partners, customer and clients fairly.

The committee is committed to achieving and maintaining the highest standards of ethical conduct and institutional integrity by complying with all laws and regulations, accounting standards, and ethical guidelines. It abides by a set of global values and performance built on integrity, innovation and service.

Recognising its role in managing social, economic and environmental issues, Transcend will continually seek to improve its social and economic contribution and minimise any environmental impacts of our properties. The company will focus its CSR strategy into three key areas, namely the environment, the community and the workplace.

The committee held its first meeting on 28 March 2017, with attendance by all its members.



**Solly Mboweni**  
Chairman: Social and Ethics Committee

Johannesburg  
24 May 2017

## King III compliance

Transcend is fully committed to applying all recommendations contained in the King Code of Corporate Governance for South Africa 2009 (“King III”), the Companies Act, the Financial Markets Act and the JSE Listings Requirements. Full details of the company’s application of the principles of corporate governance can be found at [www.transcendproperty.co.za](http://www.transcendproperty.co.za).

Transcend listed on the AltX of the JSE Limited on 1 December 2016 and has operated as a public company since that date.

### CHAPTER 2 — BOARDS AND DIRECTORS

Principle	Summary of how Transcend applies the King III principles
2.2 The Board appreciates that strategy, risk, performance and sustainability are inseparable.	The directors of the company subscribe to the principle that they have accountability to shareholders and an obligation to all stakeholders (including shareholders), to ensure that the company’s resources are utilised to ensure its continuing viability. The Board appreciates that strategy, risk, performance and sustainability are inseparable.
2.3 The Board provides for effective leadership based on ethical foundation.	Transcend’s Board considers ethical leadership and sound corporate governance practices to be a critical element in delivering sustainable growth for stakeholders. In conducting the affairs of the company, the Board endorses the principles of fairness, responsibility, transparency and accountability advocated by King III.
2.4 The Board ensures that the company is and is seen as a responsible corporate citizen.	A formally appointed Social and Ethics Committee of the Board has been constituted to assist the Board with social and ethics related matters.
2.5 The Boards ensures that the company’s ethics are managed effectively.	The Social and Ethics Committee will monitor the company’s ethics and endeavour to ensure that such ethics pervade the culture of the company.
2.6 The Board ensures that the company has an effective and independent audit committee.	Transcend’s Audit and Risk Committee is integral to the company’s risk management process. The committee consists of three independent non-executive directors, one of which acts as the Chairman of the Board. The CEO and CFO as well as representatives of the external auditors attend the meeting by invitation. All the members have the necessary skills and experience required. The committee has unrestricted access to independent expert advice should the need arise.
2.7 The Board is responsible for the governance of risk.	The Board oversees the management of risk and has delegated the process to the Audit and Risk Committee. The committee monitors the adequacy and effectiveness of the company’s internal and risk management process generally.
2.8 The Board is responsible for information technology (IT) governance.	The Board is responsible for IT governance. The CFO oversees the information technology function, attends the executive committee meetings and reports to the CEO.
2.9 The Board ensures that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards.	Nothing has come to the attention of the Board that the company has not complied with applicable laws. The company strives to maintain abreast of all applicable laws via regular communication with its advisors. The Board is preparing a legal compliance policy.
2.10 The Board ensures that there is an effective risk-based internal audit.	Due to the size of the company, the Board does not consider it cost effective to maintain a full time internal audit function. The company’s situation and needs in terms of an annual assessment will be reassessed on a yearly basis. The Board has mandated the Audit and Risk Committee to initiate internal audit investigations as and when deemed necessary.
2.11 The Board appreciates that stakeholders’ perceptions affect the company’s reputation.	The Board of directors believe that stakeholders’ perceptions are of critical importance, and to this end the Board regularly communicates with a cross section of stakeholders in order to gauge perception.
2.12 The Board ensures the integrity of the company’s integrated report.	The Audit and Risk Committee will be tasked with reviewing the integrated report and reporting back to the Board. Additionally, the Board as a whole will be provided an opportunity to provide feedback on the integrated report. Transcend works closely with its advisors prior to the release of its integrated report.
2.13 The Board reports on the effectiveness of the company’s internal controls.	Transcend’s Audit and Risk Committee will report to shareholders on the appropriateness of its system of internal controls in its integrated report. The Audit and Risk Committee receive reports on the internal controls of the company well in advance of meetings of the Audit and Risk Committee.

Principle	Summary of how Transcend applies the King III principles
2.14 The Board and its directors act in the best interests of the company.	The Board of directors individually and collectively understand their fiduciary responsibility to act in the best interests of the company and disclosures of interest and director's dealings are reported on in accordance with a policy adopted by the Board in this regard.
2.15 The Board will/has consider/ed business rescue proceedings or other turnaround mechanisms as soon as the company has been/may be financially distressed as defined in the Company's Act, 71 of 2008.	The Board has noted this responsibility and will deal with it in accordance with the provisions of the Companies Act 71 of 2008, as amended ("Companies Act"), King III and advice received from advisors should the need arise.
2.16 The Board has elected a Chairman of the Board who is an independent non-executive director. The CEO of the company does not also fulfil the role of Chairman of the Board.	The Chairman of the Board is an independent non-executive director and his role is separate from that of the CEO.
2.17 The Board has appointed the Chief Executive Officer and has established a framework for the delegation of authority.	The Board has appointed a CEO and have established a framework for the delegation of authority.
2.18 The Board comprises a balance of power, with a majority of non-executive directors. The majority of non-executive directors are independent.	The approvals framework ensures that there is a clear balance of power between the various board members. The Board comprises three executive and five non-executive directors, three of whom are independent.
2.19 Directors are appointed through a formal process.	Deliberations and appointments of the Board are formal and transparent. The Board has not as yet appointed a Nominations Committee and the need in this regard will be assessed by the Board on an ongoing basis. The role of Nomination Committee is undertaken by the Board as a whole.
2.20 The induction of and ongoing training, as well as the development of directors are conducted through a formal process.	Training is arranged for the Board as required.
2.21 The Board is assisted by a competent, suitably qualified and experienced company secretary.	The Board is assisted by a suitably qualified company secretary, who has adequate experience, who is not a director of the company and who has been empowered to fulfil his duties. The Board reviews the company secretary at least annually and the Board is satisfied that the company secretary maintains an arms-length relationship with the Board and is sufficiently qualified and experienced to execute the required duties.
2.22 The evaluation of the Board, its committees and individual directors is performed every year.	The evaluation of the Board, its committees and individual directors is performed annually.
2.23 The Board delegates certain functions to well-structured committees without abdicating from its own responsibilities.	The Board has delegated certain specific responsibilities to the Remuneration Committee, the Audit and Risk Committee, the Investment Committee and the Social and Ethics Committee without abdicating its own responsibilities.
2.24 A governance framework has been agreed upon between the group and its subsidiary boards.	The company does not have any subsidiaries. The company is required to entrench the company's governance framework within its day-to-day activities.
2.25 The company remunerates its directors and executives fairly.	The Remuneration Committee approves the remuneration policy annually and ensures that the company remunerates its directors and executives fairly.
2.26 The company has disclosed the remuneration of each individual director and prescribed officer.	The directors' remuneration will be disclosed for each individual director in its integrated report.
2.27 The shareholders should approve company's remuneration policy.	Refer to note 16 of this report where the remuneration policy has been disclosed. Transcend will engage with investors to the extent that they voice any concerns in this regard. The remuneration policy will be put to shareholders for endorsement at the upcoming annual general meeting.

# Annual financial statements

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The financial statements have been audited by KPMG Inc. in compliance with the requirements of Section 29 of the Companies Act of South Africa.

The annual financial statements were prepared under the supervision of Dave Lange CA(SA), Chief Financial Officer of Transcend Residential Property Fund Limited.

The annual financial statements set out on pages 38 to 71 were approved by the Board of Directors on 29 March 2017.

# Directors' responsibility statement

The directors are responsible for the preparation and fair presentation of the annual financial statements of Transcend Residential Property Fund Limited, comprising the statement of financial position at 31 December 2016, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the period ended 31 December 2016, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards (IFRS) and the requirements of Companies Act of South Africa. In addition, the directors are responsible for preparing the directors' report.

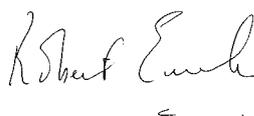
The directors are also responsible for such internal control as they may determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management, as well as the preparation of the supplementary schedules included in these financial statements.

The directors have made an assessment of the ability of the company to continue as a going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with the applicable financial reporting framework.

## Approval of annual financial statements

The annual financial statements of Transcend Residential Property Fund Limited as identified in the first paragraph, were approved by the Board of directors on 29 March 2017 and are signed by:



**Robert Emslie**  
Chairman



**Rob Wesselo**  
Chief Executive Officer



**Dave Lange**  
Chief Financial Officer

# Certificate by company secretary

In our capacity as company secretary, we hereby confirm, in terms of section 88(2)(e) of the Companies Act 71 of 2008 (the Act), that for the year ended 31 December 2016, the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Act and that all such returns are true, correct and up to date.



**Karen Waldeck**  
CorpStat Governance Services (Pty) Ltd

Company Secretary  
29 March 2017

# Directors' report

The directors have pleasure in submitting their report for the period ended 31 December 2016.

## Nature of business

Transcend Residential Property Fund Limited (Transcend or the company) listed on the Alternative Exchange (AltX) of the JSE Limited on 1 December 2016 (ISIN: ZAE000227765), in the Sector: Financial Services — Real Estate Investment Trust (Residential REITs). Transcend's country of domicile is the Republic of South Africa, and its registration number is 2016/277183/06.

The primary business of Transcend is focused on acquiring income-generating residential properties, with a focus on housing opportunities that are affordable, lifestyle enhancing and well located in high growth urban areas. Transcend holds a portfolio of 13 properties, comprising 2 472 units, located primarily in Gauteng, the Western Cape and Mpumalanga, South Africa. These properties were acquired effective 1 October 2016 in exchange for shares as set out below.

## Regulation

As a REIT, the company is regulated by the JSE.

## Review of results for the financial period

Transcend Residential Property Fund Limited was incorporated as a private company on 8 July 2016 and converted to a public company on 22 August 2016. The period under review covers six months from 1 July 2016 to 31 December 2016 and consequently there are no comparatives for prior years.

In terms of the of the property acquisitions, each rental enterprise was acquired by Transcend with effect from 1 October 2016 as a common control transaction. On this date, Transcend assumed certain assets and liabilities relating to each rental enterprise. Although the reporting period under review covers 6 months, the results presented in the annual financial statements represent operating activities for three months only, as Transcend recognised income and expenditure from the effective date, 1 October 2016.

Profit and total comprehensive income for the period amounts to R16.52 million. Notably, the forecast statement of comprehensive income as per the Listing Prospectus issued on 16 November 2016 ("the forecast") forecast a net loss for the period of R9.92 million. The difference between the actual profit earned and the loss incurred in the forecast is primarily as a result of a net gain on fair value adjustments to investment property of R11.39 million (actuals) (as a result of increases in the fair values of the properties over that period), which was forecast as a negative fair value adjustments to investment property of R15.41 million (which forecast excluded any increase or decrease in the fair values of the properties over the period), thus accounting for an increase in profit of some R26.8 million in the actual results (as compared to the forecast).

Basic earnings per share for the period amounts to 51.70 cents. Notably, the forecast indicated a loss per share for the period of 31.1 cents. The difference between the actual earnings per share and the forecast loss per share is as a result of the net gain on fair value adjustments to investment property of R11.39 million referred to above.

The amount available for distribution to shareholders for the period amounts to R3 718 million. Notably, the forecast indicated an amount available for distribution to shareholders for the period of R1 389 million. The difference between the actual amount available for distribution and the forecast amount available for distribution is as a result of surplus working capital available for distribution of R1 290 million. This resulted in the distribution per share for the period amounting to 5.61 cents per share (an improvement to the forecast distribution per share for the period of 2.1 cents per share).

## Share capital

The company's authorised share capital comprises 3 500 000 000 ordinary shares of no par value. The company's shares trade on the AltX.

During the period ended 31 December 2016, the following shares were issued:

- > 59 046 443 shares issued on 1 October 2016 at R10 per share as part of the sale agreements of each of the 13 properties; and
- > 7 259 219 shares issued to the public on 1 December at R6.75 per share in terms of a private placement.

## Dividend policy

The company declares and pays both an interim and final dividend in respect of each financial year.

In considering the payment of dividends, the Board, with the Audit and Risk Committee's assurance, takes the following into account:

- > the financial status of the company as at the end of each six months, subject to solvency and liquidity testing as required by the Companies Act; and
- > the capital commitments of the company and its funding requirements.

## Dividends

The Board approved and declared the following dividend on 29 March 2017 (see table on page 42).

These dividends have been declared from distributable earnings and meet the requirements of a REIT "qualifying distribution" for purposes of section 25BB of the Income Tax Act, No 58 of 1962, as amended.

## DIVIDENDS

Dividend number	Distribution period	Dividends (Rand)	Dividend per share (cents)
1	1 December 2016 to 31 December 2016	3 718 440	5.61

## DIRECTORATE

Name	Nationality	Effective date of appointment	Date of resignation
Robert Nicolaas Wesselo	South African	8 July 2016	N/A
David Peter Lange	South African	10 August 2016	N/A
Solly Mboweni	South African	1 October 2016	N/A
Michael Louis Falcone	American	10 August 2016	N/A
Cathal Pdraig Conaty	Irish	10 August 2016	N/A
Robert Reinhardt Emslie	South African	10 August 2016	N/A
Faith Nondumiso Khanyile	South African	10 August 2016	N/A
Michael Simpson Aitken	South African	10 August 2016	N/A
Mary Nicolette Blane	South African	8 July 2016	1 August 2016

## DIRECTORS' INTEREST IN SHARES

Directors	Beneficially held — directly %	Number of shares	Beneficially held — indirectly %	Number of shares	Total %	Number of shares
Cathal Conaty	—	—	0.0013	887	0.0013	887
Mike Falcone	—	—	0.0697	46 226	0.0697	46 226
Robert Emslie	0.0005	300	0.1502	99 600	0.1507	99 900
Rob Wesselo	0.0020	1 000	—	—	0.0020	1 000
<b>Total</b>	<b>0.0025</b>	<b>1 300</b>	<b>0.2212</b>	<b>146 713</b>	<b>0.2237</b>	<b>148 013</b>

## Directorate

The Board is currently made up of eight directors of which five are non-executives (three of whom are independent). Please refer to the table above for more details.

There have been no changes to the directors after year-end.

At the first annual general meeting of the company, all the directors are required to retire from office. The Board shall provide the shareholders with a recommendation as to which retiring directors are eligible for re-election, taking into account each director's past performance and contribution.

## Directors' remuneration and shareholding

Details of the directors' remuneration are set out in note 16 to the financial statements.

There are two directors with a direct interest in Transcend shares in issue as at 31 December 2016 as disclosed above.

There has been no change in directors' interests between 31 December 2016 and the date of the approval of the annual financial statements.

## Directors' interests in contracts

During the period under review the company did not enter into any contracts in which directors have an interest.

## Service contracts

The executive directors are subject to one calendar month's written notice under their existing employment contracts.

All directors are required to retire at the first annual general meeting of the company. Furthermore, executive directors who have held office for a period of three years since their last election, shall retire. Non-executive directors who have held office for a period of nine years since their last election, shall retire. Directors may be re-elected, provided they are eligible for re-election.

## Management and administration

International Housing Solutions Asset Management (Pty) Ltd ("IHS AM") externally manages Transcend in terms of an asset management agreement which became effective on 1 October 2016. International Housing Solutions Property Management (Pty) Ltd ("IHS PM") performs the property management function of Transcend in terms of a property management agreement which became effective 1 October 2016.

## Going concern

Refer to note 23 to the financial statements for disclosure regarding going concern.

## Subsequent events

Refer to note 22 to the financial statements for disclosure regarding subsequent events.

## Remuneration policy

Transcend is externally managed by IHS AM through an Asset Management Agreement ("AMA"). IHS AM is wholly owned by IHS.

Through a service level agreement, IHS AM has largely outsourced its day to day functions to IHS.

As a result of the above structure, Transcend itself does not have any employees. Instead, suitable employees of IHS have been seconded to Transcend in line with the following clause from the AMA:

"Pursuant to the terms of this Agreement, the Manager will second suitably qualified employees of the Manager to act in the positions of CEO, COO and CFO of the company, whose appointment as executive directors of the company will be subject to the periodical approval of the Board and/or shareholders of the company as determined by the Board from time to time. The CEO, COO and CFO shall remain employees of the Manager and their contract of employment with the Manager shall remain in full force and effect. The remuneration and benefits to be paid to the CEO, COO and CFO for their services as directors of the company will be borne by the Manager and will form part of the fees payable by the company to the Manager for the services provided."

As such, Transcend does not have a formal policy in place to remunerate the executive directors of Transcend. However, it should be noted that the performance of the CEO, COO and CFO shall, in accordance with the AMA clause above, be reviewed by the Transcend Board from time to time with reference to forecast distribution guidance provided, as well as the executive team's ability to secure acquisitions of properties of similar quality and yield producing capability.

Transcend's remuneration policy will be tabled at the annual general meeting on 29 June 2017.

## Auditors

KPMG Inc. has been appointed in terms of section 90 of the Companies Act 71 of 2008.

## Registered office and business address

Peter Place Office Park, Block G, Ground floor  
54 Peter Place  
Bryanston  
2191

# Audit and Risk Committee report

For the period ended 31 December 2016

The Audit and Risk Committee is a sub-committee of the Board of directors and in addition to having specific statutory responsibilities to the shareholders in terms of the Companies Act 71 of 2008 (the Companies Act), its primary role is to ensure the integrity of financial reporting and overseeing the audit process. The committee assists the Board in discharging its duties relating to the operation of adequate systems, overseeing the preparation of accurate financial reports, oversight of the risk management process and internal financial controls, external and internal audit functions and statutory and regulatory compliance of the company.

In compliance with its oversight role in relation to the preparation of this report, the Audit and Risk Committee has had due regard to all factors and risks that may impact on the integrity of the integrated report. Within this context, the committee is responsible for the company's systems of internal, financial and operational control.

## Terms of reference

The committee has adopted formal terms of reference which have been approved by the Board of directors and which are reviewed on an annual basis. The committee has executed its duties during the past financial year in accordance with these terms of reference, the Companies Act, King III and, where appropriate, the JSE Listings Requirements.

## Committee composition

The Board, in accordance with the requirement set out in Transcend's Memorandum of Incorporation, has established an Audit and Risk Committee comprising Michael Aitken (Chairman), Faith Khanyile and Robert Emslie, who are all independent non-executive directors. All the members are financially literate and collectively have sufficient qualifications and experience to fulfil their duties. Given that Robert Emslie is the Chairman of the Board, and a member of the Audit and Risk Committee, his role as member of the Audit and Risk Committee will be approved at the upcoming annual general meeting.

## Meetings

The CEO, CFO and company secretary attend the committee meetings as invitees. The committee members have unlimited access to all information, documents and explanations required in the discharge of their duties, as do the external auditors.

The Audit and Risk committee held one meeting on 28 March 2017.

## Duties

The committee is aware of its statutory and other responsibilities, the most significant of which are listed below:

- › Recommend the appointment of the external auditors, having determined that they have the necessary expertise, are independent of the company and are approved by the JSE;
- › Approve the terms of engagement of the external auditors and the fee to be paid, as per note 4 of the financial statements;

- › Confirm the appointment of the external auditors complies with the relevant provisions of the Companies Act, JSE and King III;
- › Pre-approve all non-audit service contracts;
- › Review all trading statements before recommending them to the Board for approval; and
- › Make the following submissions to the Board on matters concerning the company's accounting policies, financial control, financial records, financial reporting:
  - » Concur that the adoption of the going concern premise in the preparation of the financial statements is appropriate.
  - » Recommend the annual financial statements for approval by the Board.

## Oversight of risk management

With the assistance of the executive directors, the committee monitors the significant risks that the company is exposed to. It also ensures that risks are taken within a reasonable appetite and that sufficient safeguards are put in place to mitigate such risks. The risk management policy is in accordance with industry practice and specifically prohibits Transcend from entering into any derivative transactions that are not in the normal course of the company's business and the committee ensures compliance therewith. Transcend's risk policy will be further formalised and enhanced in the future to define and provide detailed parameters around the company's risk appetite, which will contribute to the company achieving its strategic objectives. A summarised matrix which includes significant risks, the impact of these risks, and the mitigating response of the company, is set out on page 45 and will be discussed at the next Audit and Risk Committee.

The committee satisfied itself that the processes and procedures followed in terms of identifying, managing and reporting on risk are adequate and that the following areas, amongst other strategic and operational risks, have been appropriately addressed:

- › Investment risk;
- › Risk of property damage or destruction;
- › Risk of vacancies;
- › Concentration of lease expiries risk;
- › Regulatory and compliance risk;
- › Bad debts;
- › Operational risks;
- › IT risk as it relates to financial reporting;
- › Internal financial control;
- › Business continuity risk; and
- › Fraud and error risks as it relates to financial reporting.

## Internal audit and internal financial controls

Due to the size of the company, the Board does not consider it to be cost effective to maintain a full-time internal audit function.

RISK MATRIX

Risk	Level	Mitigating factor
<b>FRAUD AND ERRORS:</b> ERRORS ARE MADE OR FRAUD COMMITTED EITHER BY AN EMPLOYEE OF THE COMPANY OR ITS PROPERTY MANAGER.	Low to moderate	Internal controls, schedules of payments and cash balances are tested and reviewed regularly by management, as well as by the external auditors. Segregation of duties is also ensured through the separation of key functions of the business.
<b>MUNICIPAL AND OTHER SERVICES:</b> MATERIAL INCREASE IN ELECTRICITY COSTS WHICH COULD PLACE DOWNWARD PRESSURE ON RENTALS. DISRUPTION OF SUPPLY.	Low to moderate	Ongoing monitoring of costs of utilities and recoveries through accurate metering systems to ensure that costs are accurately recorded and recovered where appropriate. Investigation of use of generators where appropriate.
<b>INTEREST RATE RISK:</b> INTEREST RATES RISE INCREASING THE COST OF DEBT FUNDING, WHICH MAY HAVE AN ADVERSE IMPACT ON DISTRIBUTIONS.	Moderate	Transcend has hedged a portion of its senior funding in order to fix interest rates on a three-year and five-year basis to manage the risk of fluctuations and rate increases. This is in line with the company's hedging policy and will be reviewed regularly by management and the Board and adjusted based on market conditions.
<b>LOSS OF INCOME:</b> INCREASED VACANCIES, INABILITY TO INCREASE RENTALS AND BAD DEBTS COULD ALL HAVE A NEGATIVE IMPACT ON THE COMPANY'S ABILITY TO MEET ITS FORECAST DISTRIBUTIONS AND GROWTH.	Moderate	A diversified portfolio, strict tenant vetting criteria, hands on property management function, tenant deposits and continuous monitoring of occupancy and rent levels ensures that Transcend's portfolio remains well tenanted and stable.
<b>PROPERTY VALUES:</b> THE VALUE OF PROPERTIES REDUCES AS A RESULT OF DETERIORATION OF INCOME OR A RISE IN CAP RATES DUE TO FORCES OUTSIDE OF THE COMPANY'S CONTROL.	Moderate	Diversified portfolio, strong market demand, and intense focus on asset and property management to ensure the protection of income and control of expenses. Rising cap rates as a result of unforeseen market forces would impact the property market as a whole and would not necessarily be specific to Transcend.

The company's situation and needs in terms of an internal audit function will be reassessed on a yearly basis. The Board has mandated the Audit and Risk Committee to initiate internal audit investigations as and when deemed necessary.

Transcend is dependent on the control environments of their services organisations to ensure there is sufficient internal control, as the directors determine is necessary, to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The two services organisations are IHS PM and IHS (AM) which performs the property management and asset management activities respectively on behalf of Transcend.

KPMG Inc is also the auditor of these two entities and have identified certain control deficiencies at IHS PM and IHS AM which existed at year end. The control deficiencies identified have been subsequently addressed by management at both service organisations through the implementation of appropriate controls, however the operating effectiveness of these controls still need to be tested.

Based on the above assurance from management that the controls have been implemented accordingly, the committee is satisfied that the control environment is in the process of being strengthened.

Regulatory compliance

The committee is satisfied that the company complied with all relevant laws and regulations and has processes in place to detect non-compliance.

Finance function

We believe that Dave Lange CA(SA), the Chief Financial Officer, possesses the appropriate expertise and experience to meet his responsibilities in that position as required by the JSE Listings Requirements.

We are satisfied with the:

- > expertise and adequacy of resources within the finance function; and
- > experience, expertise and continuous professional development of the senior members of the finance function.

Based on the processes and assurances obtained, we believe that the accounting practices are effective.

Recommendation

Based on processes and assurances obtained, we recommend the annual financial statements to the Board for approval.

On behalf of the Audit and Risk Committee



Michael Aitken  
Chairman

28 March 2017

# Independent auditor's report

To the Shareholders of Transcend Residential Property Fund Limited

## Report on the audit of the financial statements

### Opinion

We have audited the financial statements of Transcend Residential Property Fund Limited ("the company") set out on pages 48 to 71, which comprise the statement of financial position as at 31 December 2016, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the period then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Transcend Residential Property Fund Limited as at 31 December 2016, and its financial performance and cash flows for the period 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 financial statements section of our report. We are independent of the 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 International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### The key audit matter:

### Valuation of investment property

Refer to accounting policy note 1.2 and note 9 to the financial statements.

Valuation of investment property is an area of judgement which could materially affect the financial statements given that the investment properties are measured at fair value.

Independent valuations are obtained on all properties every year. All of the company's investment properties were valued at 31 December 2016 by an external registered valuer. These valuations were reviewed by the executive directors and asset managers to assess the reasonability of the external property valuations. For all investment properties, their current use equates to the highest and best use.

The fair value calculations are prepared by considering the aggregate of the net annual rent receivable from the properties and, where relevant, associated costs, using the net income capitalisation method. The data used in the fair value calculations includes significant unobservable inputs including expected average rental income, capitalisation rates, rental escalations and vacancy factors.

Our audit focused on the fair value measurement due to its impact on the financial statements and the significance of the judgements involved in the determination of the fair value.

#### How the matter was addressed in our audit:

Our audit procedures performed included the following:

- › We assessed the competence, capabilities and objectivity of the directors' independent external valuer, and verified their qualifications. In addition, we discussed the scope of the valuer's work with management and reviewed their terms of engagement to determine that there were no matters that affected their independence and objectivity or imposed scope limitations upon them.
- › We focused our audit work on testing the key assumptions used in the determination of the fair value, which included:
  - » Evaluating the valuation models prepared in December 2016 to ensure that the valuation methodology was appropriate.
  - » With the assistance of our valuation experts, assessing the reasonableness of the following assumptions used in determining fair value with reference to available industry data for similar investment properties:
    - Capitalisation rates;
    - Rental income and operating income;
    - Rental escalations; and
    - Vacancy rates.
- › Determining suitable valuation ranges, which we compared to the external valuations to assess the reasonableness of those valuations.

### Other information

The directors are responsible for the other information. The other information comprises the Certificate by company secretary, Directors' report and the Audit and risk committee report as required by the Companies Act of South Africa and the Directors' responsibility statement, which we obtained prior to the date of this report, and the integrated report, which is expected to be made available to us after that date. Other information does not include the financial statements and our auditor's report thereon. Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, 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 financial statements

The directors are responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the 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 company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 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 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 company to cease to continue as a going concern.
- > Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the 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 KPMG Inc. has been the auditor of Transcend Residential Property Fund Limited for one year.

**KPMG Inc.**  
Registered Auditor



**Per GS Kolbé**  
Chartered Accountant (SA)  
Registered Auditor, Director

29 March 2017

KPMG Crescent, 85 Empire Road, Parktown, Johannesburg

# Statement of profit or loss and other comprehensive income

For the six months ended 31 December 2016

	Note	2016 R
Rental income from investment properties		33 989 797
Recoveries of operating costs from tenants		2 271 007
<b>Revenue</b>		<b>36 260 804</b>
Property operating expenses	3	(11 940 371)
<b>Net operating income</b>		<b>24 320 433</b>
Other operating expenses	4	(3 916 020)
<b>Operating profit</b>		<b>20 404 413</b>
Gain on fair value adjustment of investment property	9	11 386 851
Net finance charges		(15 267 409)
— Finance charges	5	(15 438 601)
— Finance income	6	171 192
<b>Profit before taxation</b>		<b>16 523 855</b>
Taxation	7	—
<b>Profit and total comprehensive income for the period</b>		<b>16 523 855</b>
Basic/diluted earnings per share (cents)	8	51.7
Headline earnings per share (cents)	8	16.1

# Statement of financial position

As at 31 December 2016

	Note	2016 R
<b>ASSETS</b>		
<b>Non-current assets</b>		<b>1 189 400 000</b>
Investment property	9	1 189 400 000
<b>Current assets</b>		<b>37 304 987</b>
Trade and other receivables	10	13 804 616
Cash and cash equivalents	11	23 500 371
<b>Total assets</b>		<b>1 226 704 987</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Shareholders' interest</b>		<b>648 799 755</b>
Stated capital	12	632 275 900
Retained earnings		16 523 855
<b>Other non-current liabilities</b>		<b>330 564 574</b>
Interest-bearing borrowings	13	330 564 574
<b>Current liabilities</b>		<b>247 340 658</b>
Short-term portion of interest-bearing borrowings	13	216 910 946
Trade and other payables	14	30 429 712
<b>Total equity and liabilities</b>		<b>1 226 704 987</b>

## Statement of changes in equity

For the six months ended 31 December 2016

	Note	Stated capital R	Retained earnings R	Total R
<b>Balance at 1 July 2016</b>		—	—	—
<b>Transactions with owners</b>				
Issue of shares	12	639 464 158	—	639 464 158
Capitalised listing fees		(7 188 258)	—	(7 188 258)
<b>Profit and total comprehensive income for the period</b>		—	16 523 855	16 523 855
<b>Balance at 31 December 2016</b>	12	632 275 900	16 523 855	648 799 755

## Statement of cash flows

For the six months ended 31 December 2016

	Note	2016 R
<b>Net cash generated from operating activities</b>		<b>23 938 791</b>
Cash generated from operations	15	37 029 509
Finance charges paid		(13 261 910)
Finance income received		171 192
<b>Net cash utilised in investing activities</b>		<b>(13 013 149)</b>
Capitalisation of transfer and bond costs		(13 013 149)
<b>Net cash generated from financing activities</b>		<b>12 574 729</b>
Repayment of interest-bearing borrowings		(24 424 764)
Proceeds from share issue		36 999 493
<b>Net movement in cash and cash equivalents</b>		<b>23 500 371</b>
Cash and cash equivalents at the beginning of the period		—
<b>Cash and cash equivalents at the end of the period</b>		<b>23 500 371</b>

# Notes to the financial statements

For the six months ended 31 December 2016

## REPORTING ENTITY

Transcend Residential Property Fund Limited (Transcend) is a company domiciled in South Africa. The address of the company's registered office is 54 Peter Place, Peter Place Office Park, Block G, Glasgow House, Ground Floor, Bryanston.

## NATURE OF BUSINESS

Transcend is a Real Estate Investment Trust (REIT) which owns a residential property portfolio of 13 directly owned properties in South Africa valued at R1.19 billion.

The primary business of Transcend is long-term investment in quality, rental-generating residential properties. Properties are maintained, upgraded and refurbished, where necessary, so as to increase their long-term value.

Given the nature of its business, Transcend uses distribution per share as its key performance measure as it is considered a more relevant measure than earnings or headline earnings per share.

### a) Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the JSE Listings Requirements, the requirements of the South African Companies Act and incorporate the principal accounting policies set out below.

### b) Basis of measurement

The company's financial statements have been prepared on a historical cost basis, except for investment properties that have been measured at fair value.

### c) Functional and presentation currency

The financial statements are presented in South African Rand (Rand), which is the company's functional currency.

## 1. SIGNIFICANT ACCOUNTING POLICIES

### 1.1 FINANCIAL INSTRUMENTS

Financial instruments are contracts that give rise to a financial asset of one entity, and a financial liability or equity instrument of another entity.

#### Classification

The company classifies financial assets and financial liabilities into the following categories:

- > Loans and receivables
- > Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained/incurred and takes place at initial recognition.

#### Initial recognition and measurement

Financial instruments are recognised in the statement of financial position when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value including transaction costs.

# Notes to the financial statements

## continued

For the six months ended 31 December 2016

### 1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

#### 1.1 FINANCIAL INSTRUMENTS CONTINUED

##### Subsequent measurement

###### *Loans and receivables*

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Loans and receivables comprise of trade and other receivables and cash and cash equivalents.

###### *Financial liabilities at amortised cost*

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Financial liabilities at amortised cost comprise of interest-bearing borrowings and trade and other payables.

###### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in fair value, and are held for the purpose of meeting short-term cash commitments rather than investments or other purposes.

###### *Offset*

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when the company has a legally enforceable right to offset the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. An entity currently has a legally enforceable right to set-off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. Gross settlement is equivalent to net settlement if, and only if, the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and process receivables and payables in a single settlement processes or cycle.

###### *Derecognition*

The company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the company is recognised as a separate asset or liability.

The company derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

###### *Impairment of financial assets*

At each reporting date the company assesses all financial assets, other than those at fair value through profit or loss, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the company, debtors with significant financial difficulties, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in profit or loss. Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised. Reversals of impairment losses are recognised in profit or loss.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised within property operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against property operating expenses in profit or loss.

# Notes to the financial statements

## continued

For the six months ended 31 December 2016

### 1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

#### 1.2 INVESTMENT PROPERTY

Investment property consists of land and buildings held to earn rental income for the long term and subsequent capital appreciation.

Properties are initially recognised at cost on acquisition, including all costs directly attributable to the acquisition, and subsequent additions that will result in future economic benefits and whose cost can be measured reliably, are capitalised.

Subsequent to initial recognition, investment properties are measured at their fair value. Fair value adjustments are recognised in profit or loss.

Investment property is maintained, upgraded and refurbished, where necessary, in order to preserve or improve the capital value as far as it is possible to do so. Maintenance and repairs which neither materially add to the value of the properties nor prolong their useful lives, are charged against profit or loss.

Independent valuations are performed annually for every property by an external independent valuer. Management performs internal valuations every quarter by considering the aggregate of the estimated cash flows to be received from renting the units. A discount rate that reflects the specific risks inherent in the net cash flows is then applied to the net annual cash flows to arrive at the property valuation. These values are used to assess the reasonability of the external property valuations.

Gains or losses on subsequent measurement or disposals of investment properties are recognised in profit or loss. Such gains or losses are excluded from the calculation of distributable earnings.

#### 1.3 PROVISIONS

Provisions are recognised when the company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and, in addition, a reliable estimate of the amount can be made.

#### 1.4 ORDINARY SHARES

Ordinary shares are classified as stated capital. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from stated capital.

#### 1.5 LEASES

The company is party to numerous leasing contracts as the lessor of property. All leases are operating leases, which are those leases where the company retains a significant portion of the risks and rewards of ownership.

The company's rental revenue is short-term in nature and consists of contracted rental revenue for a period of twelve months which constitutes the length of the company's legally binding lease agreements. Once the lease agreements expire, they revert to month-to-month rental agreements that continue until such time as the rental agreements are terminated either on one-month notice by the tenant or by the company.

In some instances the company provides certain incentives for the lessee to enter into lease agreements. Initial periods of the lease term may be agreed to be rent-free or at a reduced rent. All incentives are recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments. The company recognises the aggregate cost of incentives as a reduction of rental income.

#### 1.6 REVENUE RECOGNITION

Revenue from the letting of investment property comprises gross rental income and recoveries of operating costs. Rental income is recognised in the period it is earned.

# Notes to the financial statements

## continued

For the six months ended 31 December 2016

### 1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

#### 1.7 SERVICE CHARGES AND OTHER EXPENSES RECOVERABLE FROM TENANTS

Service charges and other such receipts are included in net rental income gross of the related costs, as the directors consider that the company acts as a principal in this respect. Income arising from expenses recharged to tenants is recognised in the period in which the compensation becomes receivable.

#### 1.8 OPERATING PROFIT

Operating profit included in profit or loss represents the revenue earned from investment property, adjusted for property operating expenses and other operating expenses and income.

#### 1.9 TAXATION

Income tax expense comprises current and deferred taxation. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on taxable income, after deducting the qualifying distribution for the year of assessment, using tax rates that have been enacted or substantially enacted by the reporting date and includes adjustments for tax payable in respect of previous years. In accordance with the REIT status, dividends declared are treated as a qualifying distribution in terms of section 25BB of the Income Tax Act, No 58 of 1962 (as amended).

Deferred income tax is provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises:

- › From the initial recognition of goodwill in a business combination;
- › From the initial recognition of other assets and liabilities in a transaction which is not a business combination and affects neither accounting profit nor taxable income; or
- › Differences related to investments in subsidiaries, joint ventures and associates, to the extent that it is probable that they will not reverse in the foreseeable future and the Group is able to control the reversal.

Deferred tax is not recognised on the fair value of investment properties. Investment properties will be realised through sale and, in accordance with the income tax requirements relating to the REIT status, capital gains tax on the sale of investment properties is disregarded. Deferred tax is not recognised for temporary differences that will form part of future qualifying distributions.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability settled.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities and they relate to income tax levied by the same authority on the same taxable entity, or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for deductible temporary differences and unused tax losses to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Dividends received by or accrued to South African tax residents from a REIT are exempt from dividend withholding tax, but will be included in the gross income of such shareholders and will not be exempt from the income tax in terms of the exclusion to the general dividend exemption contained in section 10(1)(k)(i)(aa) of the Income Tax Act. Any dividend received from a REIT (by a non-resident) will be subject to dividend withholding tax at 20%, unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation between South Africa and the country of residence of the non-resident shareholder.

# Notes to the financial statements

## continued

For the six months ended 31 December 2016

### 1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

#### 1.10 SEGMENT REPORTING

The company reports in operating segments for each investment property, namely:

- > 67 on 7th;
- > Acacia Place;
- > Alpine Mews;
- > Ekhaya Fleurhof;
- > Ekhaya Jabulani;
- > Jackalberry Close;
- > Kensington Place;
- > Molware Estate;
- > Parklands;
- > Village Seven Stone Arch Estate;
- > Terenure;
- > Theresa Park Estates;
- > Tradewinds; and
- > Entity level.

An operating segment is a component of the company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the company's other components. An operating segment's operating results are reviewed regularly by Executive Management to make decisions about resources to be allocated to the segment and assess its performance, and for which distinct financial information is available.

Segment results that are reported to Executive management include items directly attributable to a segment or a region, as well as those that can be allocated on a reasonable basis. Unallocated items are reported by location and mainly comprise trade and other receivables, cash and cash equivalents, trade and other payables, and the related income and expenses to these items.

Segment capital expenditure is the total cost incurred during the period on investment property, including entity level costs.

#### 1.11 KEY JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Information regarding judgements that have the most significant effect on the amounts recognised in the financial statements, as well as the key sources of estimation uncertainty, is set out in note 1.2 Investment property.

# Notes to the financial statements

## continued

For the six months ended 31 December 2016

## 2. RECENT DEVELOPMENTS

There are new or revised accounting standards and interpretations in issue that are not yet effective. These include the following standards and interpretations that are material to the business of the company and which may have an impact on future financial statements, or those for which the impact has not as yet been assessed. These standards were not early adopted.

Standard	Standard's name and effective date	Description
IAS 7	<b>Disclosure Initiative (Amendments)</b> 1 January 2017	The amendment aims at clarifying IAS 1 to address perceived impediments to preparers exercising their judgement in presenting financial reports.  This amendment will impact the disclosure in the company's financial statements.
IAS 12	<b>Recognition of Deferred Tax Assets for Unrealised Losses (Amendments)</b> 1 January 2017	The amendment aims at clarifying the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.  The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explains in which circumstances taxable profit may include the recovery of some assets for more than their carrying amount.  The impact on the financial statements for the company has not yet been determined.
IFRS 9	<b>Financial Instruments</b> 1 January 2018	IFRS 9, as issued, reflects the final phase of the IASB's work on the replacement of IAS 39. It applies to the following:  > classification and measurement of financial assets and financial liabilities as defined in IAS 39; > a new general hedge accounting model; > a new expected loss impairment model and introducing limited amendments to the classification and measurement requirements for financial assets.  The impact on the financial statements for the company has not yet been determined.
IFRS 15	<b>Revenue from Contracts with Customers</b> 1 January 2018	IFRS 15 specifies how and when to recognise revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles-based five-step model to be applied to all contracts with customers.  The impact on the financial statements for the company has not yet been determined.
IFRS 16	<b>Leases</b> 1 January 2019	IFRS 16 establishes the principles for the recognition, measurement, presentation and disclosure of leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance leases with the standard's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 Leases.  The new standard will not have an impact on the Company as the lease terms for all leases is 12 months or less, and leases are considered to be short term in nature.
IAS 40	<b>Investment Property</b> 1 January 2018	The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.  The impact on the financial statements of the company has not yet been determined.

# Notes to the financial statements

## continued

For the six months ended 31 December 2016

	2016 R
<b>3. PROPERTY OPERATING EXPENSES</b>	
Utilities	5 353 817
Water	1 018 838
Electricity	1 649 161
Rates	1 580 454
Sewerage	532 189
Refuse	573 175
Property management fee	2 515 001
Levies	1 369 141
Security	895 011
Repairs and maintenance	707 646
Payroll	455 034
Impairment of bad debts	202 658
Other	442 063
	<b>11 940 371</b>
<b>4. OTHER OPERATING EXPENSES</b>	
Asset management fee	1 116 298
Professional service fees	1 500 267
Auditors' remuneration	638 400
Audit services	564 300
Non-audit services	74 100
Other	661 055
	<b>3 916 020</b>
<b>5. FINANCE CHARGES</b>	
Interest on bank loans	15 438 601
	<b>15 438 601</b>
<b>6. FINANCE INCOME</b>	
Bank interest	171 192
	<b>171 192</b>

# Notes to the financial statements

## continued

For the six months ended 31 December 2016

2016  
R

### 7. TAXATION

Current taxation	—
Deferred taxation	—

#### Reconciliation of taxation charge

##### Reconciliation between accounting profit and tax expense

Accounting profit	16 523 855
Tax at the applicable tax rate of 28%	4 626 679
<b>Tax effect of adjustments on taxable income</b>	
Fair value adjustments	(3 188 318)
Permanent differences	490 609
Income received in advance	221 787
Audit fee provision	158 004
Provision for doubtful debts	42 558
Prepaid expenses	(61 109)
Qualifying distribution	(2 290 210)

Transcend has been approved as a Real Estate Investment Trust (REIT) with effect from 1 December 2016. As a result, section 25BB of the Income Tax Act will apply to qualifying REIT income. This results in any capital gains on the sale of investment property being disregarded and previous building allowances claimed on the investment property, before REIT status was obtained, being recouped at 28% when sold. Rental income and dividends from controlled companies are taxed at 28% and any dividends paid from these taxable profits, will be deductible at 28% by means of a qualifying distribution deduction.

In the current year, Transcend has no liability for normal taxation as all cash profits are paid as a dividend (qualifying distribution). The shareholders of Transcend are consequently subject to tax on the distribution received from Transcend.

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### 8. EARNINGS, HEADLINE EARNINGS AND DISTRIBUTABLE EARNINGS

Number of shares in issue at year-end	66 305 662
Weighted average number of shares in issue used for the calculation of earnings and headline earnings per share	31 962 195
<b>Reconciliation of earnings, headline earnings and distributable earnings</b>	
Profit for the year attributable to equity holders (profit after tax)	16 523 855
Less: Change in fair value of investment properties	(11 386 851)
<b>Headline earnings attributable to equity holders</b>	5 137 004
Add: Surplus working capital available for distribution	1 290 146
Add: Listing fees expensed	1 752 172
Clean-out dividend*	(4 460 882)
<b>Amounts available for distribution to shareholders</b>	3 718 440
Basic and diluted earnings (cents)	51.7
Headline and diluted headline earnings per share (cents)	16.1
Distribution per share (cents)	5.61
Net asset value per share (cents)**	9.78

\* The clean-out dividend is a distribution to Transcend shareholders prior to the Transcend listing on the JSE. This dividend is equivalent to the distributable earnings for the period 1 October 2016 to 30 November 2016.

\*\* Net asset value is defined as the company's total assets less its total liabilities.

# Notes to the financial statements

## continued

For the six months ended 31 December 2016

	2016 R
<b>9. INVESTMENT PROPERTY</b>	
Opening fair value of investment property	—
Acquisitions at cost	1 165 000 000
Capitalised expenditure	13 013 149
Fair value adjustment on investment property	11 386 851
Closing fair value of investment properties per valuations	1 189 400 000

Full details of investment properties owned by the company are contained and disclosed in the property listing on page 74.

The properties were valued as at 31 December 2016 by capitalising the net contractual income derived from the properties for a period of one year in advance by an applicable capitalisation rate as determined by the independent valuer.

All the properties were valued by Real Insight, a registered valuer in terms of Section 19 of the Property Valuers Professional Act (Act No. 47 of 2000).

Investment properties to the value of R1.19 billion have been used to provide security for loans taken out. Refer to Note 13.

### Business combination versus asset acquisition

The directors have assessed the properties acquired and have concluded that in their view, these acquisitions are property acquisitions in terms of IAS 40 *Investment Property*, and are therefore accounted for in terms of that standard. These properties do not constitute a business as defined in terms of IFRS 3 *Business Combinations*, as the company did not acquire the asset management and property management processes as part of these property acquisitions.

### Fair value measurement of investment property

The investment properties are valued using a level 3 model. Please refer to Note 20 Financial Risk Management. There are no other assets that are required to be analysed as per the hierarchy.

The calculation of the market value of all properties in Transcend has been based on income capitalisation. This is the fundamental basis on which income producing properties are traded in the South African market. This is also due to there being strong supporting evidence of open market rental rates and capitalisation rates which are evidenced by sales in the market.

The following key assumptions were used to determine the value of the properties:

### Expected net operating income

The average rental income ranges from R3 985 to R6 273 per unit. Generally, the rentals are market related compared to similar buildings in comparable areas.

### Capitalisation rate

The capitalisation rate ranges from 8.25% to 9.5%. The capitalisation rate applied was derived using an appropriate risk free rate and adding on property related risk and illiquidity risk related to property, as well as further amounts related to each property's construction, size, duration, rental, exit and other property specific risks. Testing this for reasonableness was achieved by comparing the resultant value per opportunity and effective yield rate against current project sales information, and comparative sales of similar properties in similar locations.

### Growth rate

The range for rental escalations is 3% to 4.5%. The rental growth rates are based on current experience with actual growth achieved, but should trend towards inflation over the long term and expectations of future increases based on budgets. The lower growth rates are reflective of tough current economic conditions.

# Notes to the financial statements

## continued

For the six months ended 31 December 2016

### 9. INVESTMENT PROPERTY CONTINUED

#### Vacancy factor

The range of vacancy factors used in the valuations is 2.5% to 10%. In order to apply a conservative approach, approximately 3% and 10% of the gross income was deducted as a provision for rental that may not be collected as a consequence of vacancy, tenant failure or tenant refitting during the course of the coming year. The current vacancies are market related.

#### Valuation process

All of the company's investment properties were valued at 31 December 2016 by an external registered valuer in line with the company valuation policy. The valuations were reviewed by the executive directors and asset managers, and presented to the Investment Committee and then to the Audit and Risk Committee for approval in March 2017. For all investment properties, their current use equates to the highest and best use.

	2016 R
<b>10. TRADE AND OTHER RECEIVABLES</b>	
Trade receivables	1 952 873
Allowance for doubtful debts	(202 658)
<b>Net trade receivables</b>	<b>1 750 215</b>
Prepayments	218 245
Municipal deposits	1 679 358
Amounts receivable from related parties:*	10 132 682
Other receivables	24 116
	<b>13 804 616</b>
<b>Aging of impaired trade receivables</b>	
Not more than 30 days	229 224
More than 30 days but not more than 60 days	109 089
More than 60 days but not more than 90 days	21 581
	<b>359 894</b>
<b>Receivables past due but not impaired</b>	
Receivables are considered "past due" when they are collected one day or more beyond their contractual due date.	
<b>Aging of trade receivables past due but not impaired</b>	
Not more than 30 days	1 412 082
More than 30 days but not more than 60 days	158 193
More than 60 days but not more than 90 days	22 704
	<b>1 592 979</b>
<b>Movement on the allowance for doubtful debts</b>	
Balance at the beginning of the period	—
Impairment losses recognised on receivables	202 658
<b>Balance at the end of the year</b>	<b>202 658</b>

\* Please refer to Note 18 — Related parties and related party transactions, for additional information on the receivables from related parties.

Debtors are assessed for impairment both individually and collectively. All debtors relating to tenants who have vacated the premises have been impaired 100%. All debtors who have been summonsed for non-payment have also been impaired 100%. The remaining debtor balances outstanding for more than 30 days have been impaired at 25%, balances outstanding for more than 60 days have been impaired at 50% and all balances for more than 90 days have been impaired 100%. Tenant deposits received from tenants with arrears are deducted from the allowance.

# Notes to the financial statements

## continued

For the six months ended 31 December 2016

	2016 R
<b>11. CASH AND CASH EQUIVALENTS</b>	
Bank and cash balances	9 971 670
Tenant deposits	13 528 701
	<b>23 500 371</b>
<b>12. EQUITY</b>	
<b>12.1 ISSUED CAPITAL</b>	
<i>Authorised shares</i>	
Ordinary shares of no par value	3 500 000 000
<i>Ordinary shares issued and fully paid</i>	
Stated capital — ordinary shares of no par value	66 305 662
	<b>66 305 662</b>
<b>Reconciliation</b>	
Balance as at 1 July 2016	—
Issued during the year	66 305 662
<b>Balance as at 31 December 2016</b>	<b>66 305 662</b>
<b>12.2 STATED CAPITAL</b>	
The following shares were issued during the period:	
Private placement	590 464 430
Public offering	48 999 728
Less capitalised listing costs	(7 188 258)
	<b>632 275 900</b>

# Notes to the financial statements

## continued

For the six months ended 31 December 2016

2016  
R

### 13. INTEREST-BEARING BORROWINGS

#### Nedbank Limited

Interest only loan with a variable prime rate, and a maturity date of March 2021. The property 67th on 7th with a carrying value of R91.8 million is provided as security over the bond. 50 895 372

Interest only loan with a variable prime rate, and a maturity date of March 2019. The property Acacia Place with a carrying value of R133.8 million is provided as security over the bond. 99 876 357

Interest only loan with a variable prime rate, and a maturity date of April 2019. The property Terenure Estate with a carrying value of R210 million is provided as security over the bond. 76 861 729

#### National Housing Finance Corporation SOC Ltd

Amortising loan with equal monthly payments at a variable prime rate plus 1%, and a maturity date of May 2028. The property Alpine Mews with a carrying value of R32.1 million is provided as security over the bond. 14 272 518

Amortising loan with equal monthly payments at a variable prime rate, and a maturity date of October 2026. The property Ekhaya Fleurhof with a carrying value of R65 million is provided as security over the bond. 31 403 494

Amortising loan with equal monthly payments at a variable prime rate, and a maturity date of September 2026. The property Ekhaya Jabulani with a carrying value of R88.6 million is provided as security over the bond. 45 471 220

Amortising loan with equal monthly payments at a variable prime rate, and a maturity date of October 2026. The property Parklands with a carrying value of R93.5 million is provided as security over the bond. 37 277 913

#### The Standard Bank of South Africa Limited

Loan amortised over 15 years, repayable over 5 years with a bullet repayment on date of maturity, at a variable prime rate plus 1%, and a maturity date of October 2018. The property Jackalberry Close with a carrying value of R112.4 million is provided as security over the bond. 23 156 086

Loan amortised over 15 years, repayable over 5 years with a bullet repayment on date of maturity, at a variable prime rate, and a maturity date of July 2017. The property Kent Road with a carrying value of R33.8 million is provided as security over the bond. 14 193 915

Loan amortised over 15 years, repayable over 5 years with a bullet repayment on date of maturity, at a variable prime rate plus 1%, and a maturity date of August 2018. The property Molware Estate with a carrying value of R135.9 million is provided as security over the bond. 57 354 114

Loan amortised over 15 years, repayable over 5 years with a bullet repayment on date of maturity, at a variable prime rate, and a maturity date of March 2017. The property Village Seven, Stone Arch Estate with a carrying value of R54.9 million is provided as security over the bond. 26 837 460

Loan amortised over 15 years, repayable over 5 years with a bullet repayment on date of maturity, at a variable prime rate, and a maturity date of August 2017. The property Theresa Park Estates with a carrying value of R92.85 million is provided as security over the bond. 49 608 503

Loan amortised over 15 years, repayable over 5 years with a bullet repayment on date of maturity, at a variable prime rate, and a maturity date of January 2017. The property Tradewinds with a carrying value of R44.75 million is provided as security over the bond. 20 266 839

**Subtotal** 547 475 520

Less: Short-term portion of interest-bearing borrowings 216 910 946

**Total** 330 564 574

# Notes to the financial statements

## continued

For the six months ended 31 December 2016

### 13. INTEREST-BEARING BORROWINGS CONTINUED

The Standard Bank of South Africa Limited (Standard Bank) and Transcend agreed to enter into a common terms agreement which was signed on 7 December 2016 in terms of which Standard Bank will make available to Transcend the facilities set out below to refinance the existing debt and the cost of acquisition of the properties and the payment of any fees, costs, expenses and other taxes incurred by Transcend in connection with the acquisition of the properties:

- > Tranche 1 of R275 000 000 at JIBAR plus 1.85% with a maturity date 36 months from date of drawdown;
- > Tranche 2 of R275 000 000 at JIBAR plus 2.35% with a maturity date 60 months from date of drawdown; and
- > A final facility of R10 000 000 at prime less 1% with a maturity date 36 months from date of drawdown.

As at 15 December 2016, guarantee requests to the value of R555 million were issued to Standard Bank in anticipation of the cancellation of all existing debt facilities. The properties set out in Note 9 Investment property are provided as security for the interest-bearing borrowings as at year-end. The consolidation of the existing debt into a single facility will enable Transcend to benefit from lower interest rates.

As at 31 December 2016 Transcend has not drawn down on any of these new Standard Bank facilities. The facility was, however, utilised by 3 February 2017, and hedged against interest rate exposure in accordance with the company's hedging policy which was approved by the Board on 18 October 2016.

	2016 R
<hr/>	
<b>14. TRADE PAYABLES</b>	
Tenant deposits	13 563 275
Accrued expenses*	5 460 297
Accrual for listing costs	2 638 530
Municipal deposits	1 679 358
Rental income received in advance	792 098
Provision for audit fees	564 300
Trade payables	224 190
Amounts payable to related parties**	5 507 664
	<b>30 429 712</b>

\* The majority of the accrued expenses relates to utilities that are due.

\*\* Please refer to Note 18 Related parties and related party transactions for additional information on the payables to related parties.

	2016 R
<hr/>	
<b>15. NOTES TO THE STATEMENT OF CASH FLOWS</b>	
<b>Cash generated from operations</b>	
Profit before tax adjusted for:	16 523 855
Fair value adjustments	(11 386 851)
Finance charges	15 438 601
Finance income	(171 192)
<b>Operating profit before working capital changes</b>	<b>20 404 413</b>
Working capital changes	16 625 096
Trade and other receivables	(13 804 616)
Trade and other payables	30 429 712
	<b>37 029 509</b>

# Notes to the financial statements

## continued

For the six months ended 31 December 2016

### 16. DIRECTORS' REMUNERATION AND BENEFITS

	Basic salaries R	Directors' fees R	Bonuses and other performance payments R	Total R
<b>2016</b>				
<b>Executive directors</b>				
Rob Wesselo <sup>(1)</sup>	5 537 600	—	1 974 175	7 511 775
Solly Mboweni <sup>(2)</sup>	2 371 893	—	686 400	3 058 293
Dave Lange <sup>(3)</sup>	946 148	—	312 012	1 258 160
<b>Non-executive directors</b>				
Robert Emslie	—	14 019	—	14 019
Cathal Conaty <sup>(4)</sup>	5 537 600	—	1 974 175	7 511 775
Michael Falcone <sup>(5)</sup>	8 196 648	—	17 333 013	25 528 661
Faith Khanyile	—	14 019	—	14 019
Michael Aitken	—	14 019	—	14 019
<b>Total</b>	<b>22 588 889</b>	<b>42 057</b>	<b>22 279 755</b>	<b>44 910 721</b>

An average exchange rate of R14.77 was used in the table above to convert US dollar denominated salaries into South African Rands.

Directors fees paid to independent non-executive directors represent the total fees received by these directors for their services to Transcend for the 1 month that the company was listed in 2016.

- (1) Rob Wesselo received remuneration of R7 511 775 in 2016 from International Housing Solutions (RF)(Pty)Ltd (IHS) for his services as Managing Director of IHS. Rob does not receive any additional remuneration for his services as CEO of Transcend and it is estimated that he spends approximately 25% of his time on Transcend, which would have equated to R1 877 944 of his total remuneration received from IHS had he been the CEO of Transcend for the entire 2016 financial year.
- (2) Solly Mboweni received remuneration of R3 058 293 in 2016 from International Housing Solutions (RF)(Pty)Ltd (IHS) for his services as Head of Housing Operations of IHS. Solly does not receive any additional remuneration for his services as COO of Transcend and it is estimated that he spends approximately 25% of his time on Transcend, which would have equated to R764 573 of his total remuneration received from IHS had he been the CEO of Transcend for the entire 2016 financial year.
- (3) Dave Lange received remuneration of R1 258 160 in 2016 from International Housing Solutions (RF)(Pty)Ltd (IHS) for his services as Portfolio Manager of IHS. However, it should be noted that Dave became the full time CFO of Transcend from 1 October 2016, therefore a portion of the remuneration above relates to his services to Transcend as CFO from that date.
- (4) Cathal Conaty received remuneration of R7 511 775 in 2016 from International Housing Solutions (IHS) S.a.r.l for his services as director of IHS S.a.r.l. Cathal does not receive a fee for his services as a non-executive director of Transcend. It is estimated that he spends approximately 5% of his time on Transcend, which would have equated to R375 589 of his total remuneration received from IHS S.a.r.l had he been a director of Transcend for the entire 2016 financial year.
- (5) Mike Falcone received remuneration of R25 528 661 in 2016 from MMA Capital Management, LLC (MMA) for his services as CEO of MMA. Mike does not receive a fee for his services as non-executive director of Transcend. It is estimated that he spends approximately 5% of his time on Transcend, which would have equated to R1 276 433 of his total remuneration received from MMA, had he been a director of Transcend for the entire 2016 financial year.

# Notes to the financial statements

## continued

For the six months ended 31 December 2016

### 17. MINIMUM LEASE PAYMENTS RECEIVABLE

Minimum lease payments comprise contractual rental income from investment properties in terms of signed lease agreements:

	2016 R
Receivable within one year	5 752 217

Regardless of whether a lease is classified as a 12-month or a month-to-month lease, due to the tenant's ability to cancel the lease with one month's notice, only one month of rental income is contractually receivable by the company within one year.

### 18. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

Transcend Residential Property Fund Limited is 11% owned by public shareholding and 89% held by the South African Workforce Housing Fund SA (PVE), a South African *en commandite* partnership duly represented by its general partner; South African Workforce Housing Fund SA GP (RF) Pty Ltd (the "Partnership"). The partnership is comprised of three partners being the South African Workforce Housing Fund (Cayman) I Ltd, the South African Workforce Housing Fund (Cayman) II Ltd and the South African Workforce Housing Fund (SA) II.

The relationship between SAWHF SA GP (RF) Pty Ltd and IHS (RF) (Pty) Ltd is governed by a signed investment advisory agreement.

Transcend is externally managed by International Housing Solutions Asset Management (Pty) Ltd, a private company registered and incorporated in accordance with the laws of South Africa and a wholly-owned subsidiary of IHS (RF) (Pty) Ltd.

An asset management agreement was entered into by Transcend and International Housing Solutions Asset Management (Pty) Ltd and became effective 1 October 2016.

The property management function of the company is outsourced on market related terms to International Housing Solutions Property Management (Pty) Ltd, a private company registered and incorporated in accordance with the laws of South Africa.

A property management agreement was entered into by Transcend and International Housing Solutions Property Management (Pty) Ltd on 16 October 2016.

Transcend does not have any subsidiaries.

	2016 R
<b>TRANSACTIONS</b>	
Asset management fees paid to IHS Asset Management (Pty) Ltd	1 116 298
Property management fees paid to IHS Property Management (Pty) Ltd	2 515 001
<b>Balances owing by related parties:</b>	
Management fees owing to IHS Asset Management (Pty) Ltd	(1 116 298)
<b>Amounts receivable from related parties:</b>	
South African Workforce Housing Fund SA Rental 4 Trust	6 827 335
South African Workforce Housing Fund SA Rental 3 Trust	1 427 239
South African Workforce Housing Fund SA I	830 400
Sugar Creek Trading 289 (Pty) Ltd	675 939
Clidet NO 947 (Pty) Ltd	360 185
Business Venture Investments No 1486 (Pty) Ltd	11 583
<b>Amount owing to related parties:</b>	
South African Workforce Housing Fund SA Rental 3 Trust	(2 616 412)
Business Venture Investments No 1486 (Pty) Ltd	(1 773 359)
South African Workforce Housing Fund SA Rental 4 Trust	(882 309)
Clidet NO 947 (Pty) Ltd	(235 585)

The net balance owing from related parties is repayable on demand and relates to adjustments in finalising the settlement of the debt, issuing of shares, and the costs related to the acquisition of the properties acquired by the company.

# Notes to the financial statements

## continued

For the six months ended 31 December 2016

### 19. OPERATING SEGMENTS

The entity has fourteen reportable segments based on the entity's strategic business segments. For each strategic business segment, the entity's executive directors review internal management reports on a monthly basis. All segments are located in South Africa. There are no single major customers.

The following summary describes the operations in each of the entity's reportable segments.

	67 on 7th R	Acacia Place R	Alpine Mews R	Ekhaya Fleurhof R	Ekhaya Jabulani R	Jackalberry Close R
<b>Revenue</b>	<b>2 539 671</b>	<b>3 400 656</b>	<b>1 049 598</b>	<b>2 038 654</b>	<b>3 019 866</b>	<b>3 016 493</b>
Rental income from investment properties	2 533 527	2 777 565	1 037 542	1 917 137	2 811 198	3 011 271
Recoveries of operating costs from tenants	6 145	623 091	12 056	121 517	208 668	5 222
Property operating expenses	(678 830)	(1 408 690)	(386 330)	(478 500)	(1 188 049)	(813 647)
Other operating expenses	—	—	—	—	—	—
Gain on fair value adjustment of investment property	235 863	(145 567)	97 733	1 238 059	2 909 660	623 325
<b>Operating profit</b>	<b>2 096 705</b>	<b>1 846 400</b>	<b>761 001</b>	<b>2 798 213</b>	<b>4 741 477</b>	<b>2 826 170</b>
Net finance charges	(1 316 384)	(2 061 314)	(407 389)	(819 405)	(1 185 991)	(1 312 858)
Finance charges	(1 316 384)	(2 061 314)	(407 389)	(819 405)	(1 185 991)	(1 312 858)
Finance income	—	—	—	—	—	—
<b>Profit before taxation</b>	<b>780 321</b>	<b>(214 914)</b>	<b>353 612</b>	<b>1 978 808</b>	<b>3 555 486</b>	<b>1 513 312</b>
Taxation	—	—	—	—	—	—
<b>Profit and total comprehensive income for the period</b>	<b>780 321</b>	<b>(214 914)</b>	<b>353 612</b>	<b>1 978 808</b>	<b>3 555 486</b>	<b>1 513 312</b>
<b>Other Information</b>						
Investment property	91 800 000	133 800 000	32 100 000	65 000 000	88 600 000	112 400 000
Interest-bearing borrowings	50 895 372	99 876 357	14 272 518	31 403 494	45 471 220	23 156 086

# Notes to the financial statements

## continued

For the six months ended 31 December 2016

Kent Road R	Kosmosdal R	Parklands R	Village Seven Stone Arch Estate R	Terenure Estate R	Theresa Park Estates R	Tradewinds R	Entity Level R	Total R
<b>1 078 642</b>	<b>4 169 497</b>	<b>3 018 885</b>	<b>1 865 855</b>	<b>6 786 814</b>	<b>2 790 708</b>	<b>1 485 465</b>	—	<b>36 260 804</b>
995 673	3 917 693	2 966 901	1 652 665	6 217 816	2 768 265	1 382 544	—	33 989 797
82 969	251 804	51 984	213 190	568 997	22 443	102 921	—	2 271 007
(348 015)	(1 166 091)	(985 357)	(769 672)	(2 084 419)	(1 096 718)	(536 053)	—	(11 940 371)
—	—	—	—	—	—	—	(3 916 020)	(3 916 020)
386 212	(1 178 265)	4 179 868	1 374 393	6 516 172	(4 707 153)	(143 448)	—	11 386 851
<b>1 116 839</b>	<b>1 825 140</b>	<b>6 213 395</b>	<b>2 470 576</b>	<b>11 218 567</b>	<b>(3 013 163)</b>	<b>805 964</b>	<b>(3 916 020)</b>	<b>31 791 264</b>
(400 797)	(1 660 116)	(971 826)	(751 480)	(2 595 493)	(1 407 162)	(548 386)	171 192	(15 267 409)
(400 797)	(1 660 116)	(971 826)	(751 480)	(2 595 493)	(1 407 162)	(548 386)	—	(15 438 601)
—	—	—	—	—	—	—	171 192	171 192
<b>716 042</b>	<b>165 024</b>	<b>5 241 569</b>	<b>1 719 096</b>	<b>8 623 074</b>	<b>(4 420 325)</b>	<b>257 578</b>	<b>(3 744 828)</b>	<b>16 523 855</b>
—	—	—	—	—	—	—	—	—
<b>716 042</b>	<b>165 024</b>	<b>5 241 569</b>	<b>1 719 096</b>	<b>8 623 074</b>	<b>(4 420 325)</b>	<b>257 578</b>	<b>(3 744 828)</b>	<b>16 523 855</b>
33 800 000	135 900 000	93 500 000	54 900 000	210 000 000	92 850 000	44 750 000	—	1 189 400 000
14 193 915	57 354 114	37 277 913	26 837 460	76 861 729	49 608 503	20 266 839	—	547 475 520

# Notes to the financial statements

## continued

For the six months ended 31 December 2016

### 20. FINANCIAL RISK MANAGEMENT

The company's principle financial liabilities are loans and borrowings. The main purpose of the company's loans and borrowings is to finance the acquisition of the company's property portfolio. The company has rent and other receivables, trade and other payables and cash and short-term deposits that arise directly from its operations.

The company is exposed to market risk (including interest rate risk and real estate risk), credit risk and liquidity risk. The company's management team oversees the management of these risks, and reports on them quarterly to the audit and risk committee, who in turn has been tasked with monitoring the company's management of risk. The Audit and Risk Committee is therefore responsible for setting appropriate policies and procedures to govern financial risks, which should be measured and managed in accordance with company policies and risk objectives.

2016  
R

#### AS AT 31 DECEMBER 2016

##### Financial assets

Trade receivables	1 952 873
Cash and cash equivalents	23 500 371
	<b>25 453 244</b>

This is the total carrying amount of financial assets at amortised cost.

2016  
R

##### Financial liabilities

Interest-bearing liabilities	547 475 520
Trade and other payables	224 190
	<b>547 699 710</b>

This is the total carrying amount of financial liabilities at amortised cost.

#### INTEREST RATE RISK

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The company's exposure to the risk of changes in market interest rates relates primarily to its long-term debt obligations with floating interest rates.

At 31 December 2016, none of the company's borrowings are hedged.

#### Cash flow sensitivity analysis

A change in 1% in the interest rate at the reporting date would have resulted in an increase/(decrease) in profit of loss by the amounts shown below.

2016  
R

##### Interest-bearing borrowings

National Housing Finance Corporation (NHFC) SOC Ltd	114 152 626
Standard Bank	191 416 918
Nedbank	241 905 976
	<b>547 475 520</b>

# Notes to the financial statements

## continued

For the six months ended 31 December 2016

### 20. FINANCIAL RISK MANAGEMENT CONTINUED

Increase/(decrease)  
for 3 months ended  
31 December 2016

#### Sensitivity analysis

Interest-bearing borrowings	1 368 689/(1 368 689)
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The interest-bearing borrowings consist of a mixture of amortising debt, and interest-only facilities. As at the end of the financial year, the company did not have any hedging instruments in place to mitigate against fluctuating interest rates. As at year end, it was the company's intention to settle these debt obligations and replace them with two interest-only facilities which mature over 36 and 60 months from the date of utilisation. Please refer to Note 13 Interest-bearing borrowings.

Management intends to hedge the new facility in accordance with the company's hedging policy which was approved by the Board on 18 October 2016. The policy states that Transcend hedges 50% of all its interest rate exposure by way of entering into swaps with 25% (50% of the 50%) of the risk being hedged out by way of a one-year swap and 25% (50% of the 50%) being hedged out by way of a 3-year swap.

#### 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 by regularly monitoring cash flows.

The company can further raise new facilities and cash on hand to meet its short-term funding requirements. A maturity analysis of the company's financial liabilities and its exposure to interest rate risk at year end are set out in the table below:

	Weighted average effective interest rate %	1 year or less R	1 – 5 years R	More than 5 years R	Total R
<b>Financial liabilities</b>					
Interest-bearing liabilities	10.67	216 910 946	485 681 613	136 825 380	839 417 939
Trade and other payables		30 429 712	—	—	30 429 712
		247 340 658	485 681 613	136 825 380	869 847 651

# Notes to the financial statements

## continued

For the six months ended 31 December 2016

### 20. FINANCIAL RISK MANAGEMENT CONTINUED

#### CREDIT RISK

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from trade and other receivables.

Management has established a credit policy under which each new tenant is analysed individually for creditworthiness before the company's standard payment terms and conditions are offered which include a deposit of at least one month's rental. When available, the company's credit review includes external ratings. Furthermore, trade receivables are widely spread over a large customer base which further reduces credit risk. All specific doubtful debts have been impaired at year-end and management does not consider there to be any credit risk exposure that is not already covered in the impairment.

#### FAIR VALUE INFORMATION

##### Fair value hierarchy for financial instruments

**Level 1:** Quoted prices (adjusted) in active markets for identical assets or liabilities

**Level 2:** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

**Level 3:** Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying amounts of the debt, trade and other receivables, cash and cash equivalents and trade and other payables reasonably approximate their fair value.

##### Financial assets and liabilities not measured at fair value

	Financial liabilities at amortised cost R	Total R
<b>31 December 2016</b>		
Interest-bearing borrowings	547 475 520	547 475 520
	547 475 520	547 475 520

# Notes to the financial statements

## continued

For the six months ended 31 December 2016

### 21. CAPITAL MANAGEMENT

In terms of its Memorandum of Incorporation, Transcend has unlimited borrowing capacity although management will target a long-term loan to value range of between 30% to 40%. Transcend is funded partly by owners' capital and partly by external borrowings.

Please refer to Note 12 Equity for details regarding the shares which were issued during the financial year ended 31 December 2016.

The Board's policy is to maintain a strong capital base, comprising its shareholders' interest, so as to maintain investor, creditor and market confidence and to sustain future development of the business. It is the company's stated purpose to deliver long-term sustainable growth in distributions per share.

The Board of directors monitors the level of distributions to shareholders and ensures compliance with the Income Tax Act, JSE Listings Requirements and that no profits of a capital nature are distributed.

The company is not subject to externally imposed capital requirements.

### 22. SUBSEQUENT EVENTS

#### DECLARATION OF DIVIDEND AFTER REPORTING DATE

In line with *IAS10 Events after reporting date*, the declaration of the final dividend of R3.7 million (5.61 cents per share) occurred after the end of the reporting period, resulting in a non-adjusting event that is not recognised in the financial statements.

As of 3 February 2017, Transcend has drawn down the new facility as disclosed as per Note 13 Interest-bearing borrowings. The new facility has been hedged against interest rate exposure in accordance with the company's hedging policy which was approved by the Board on 18 October 2016.

The directors are not aware of any events or circumstances arising since the end of the financial year that would significantly affect the operations of the company or the results of those operations.

### 23. GOING CONCERN

The company earned a net profit for the period ended 31 December 2016 of R16.5 million, as of that date the company had a positive net asset value despite its current liabilities exceeding its current assets by R210 million. This was purely as a result of a number of facilities outstanding at year-end becoming due and payable in the next 12 months. However, at year-end the company had entered into agreements with long-term debt funders to refinance those facilities.

All of the current interest-bearing borrowings have been refinanced subsequent to year end (refer to Note 22 Subsequent events). Transcend therefore has access to long-term undrawn interest-bearing borrowings (refer to Note 12 Interest-bearing borrowings) for additional funding requirements. Based on the above, the directors consider that the company has adequate resources to continue operating for the foreseeable future and that it is appropriate to adopt the going-concern basis in preparing the company financial statements.

# Portfolio summary

## SECTORAL PROFILE

The entire property portfolio comprises 2 472 residential units, with a combined gross lettable area ("GLA") of 124 634m<sup>2</sup>, and its sector is classified as being residential property.

## GEOGRAPHICAL PROFILE

	By number of units	By GLA (m <sup>2</sup> )	By gross rental (GR) (%)
<b>Province</b>			
Gauteng	1 870	94 335	80
Mpumalanga	325	16 250	8
Western Cape	277	14 049	12
<b>Total</b>	<b>2 472</b>	<b>124 634</b>	<b>100</b>

## TENANT PROFILE

As per Section 13.18 of the JSE Listings Requirements, tenants are graded as follows:

- A: large national tenants, large listed tenants, government and major franchisees;
- B: national tenants, listed tenants, franchisees, medium to large professional firms;
- C: other.

The entire tenant profile is classified as "C", comprising 2 472 individual residential tenants as at 31 December 2016. These tenants have an average occupancy period of approximately 13 months across the portfolio of the properties.

## LEASE EXPIRY PROFILE

Due to the nature of residential leases, Transcend enters into lease agreements with tenants that are of a standard nature across the properties. The lease agreements are predominately for an initial period of 12 months after which the lease agreements convert to month-to-month lease agreements that continue until such time as the rental agreement is terminated on notice by the tenant or Transcend. Transcend's lease agreements are, therefore, categorised as short-term rental revenue leases.

	Number of units	Units (%)	GLA (%)	GR (%)
<b>Residential — lease expiry</b>				
Vacancy	170	6.9	7.0	6.5
Monthly	1 152	46.6	46.3	45.7
30 June 2017	696	28.2	28.6	29.5
31 December 2017	427	17.3	17.0	17.3
31 December 2018	27	1.0	1.1	1.0
	<b>2 472</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

# Portfolio summary

## continued

### VACANCY PROFILE

A historic average vacancy rate of 4% for stabilised rental properties in the portfolio has been determined based on quarterly occupancy reports from 1 January 2014 to 31 December 2016. A property becomes stabilised once units have been fully let after an empty new-build property is acquired. A stabilised property is subject to the natural turn over and vacancy rates that can be expected on an ongoing basis. Certain properties, specifically Acacia Place, are in the process of being leased. The vacancy profile by GLA and number of units is set out below:

	Number of vacant units	Units (%)	GLA (%)
<b>Unit type</b>			
One bedroom + one bathroom	3	0.1	0.1
Two bedroom + one bathroom	162	6.6	6.5
Two bedroom + two bathroom	1	0	0.1
Three bedroom + two bathroom	4	0.2	0.3
<b>Portfolio vacancy</b>	170	6.9	6.9

*Based on existing leases as at 31 December 2016. Note that Acacia Place is still in lease-up and the vacancy rate of the property portfolio excluding this property is 4.3%. Acacia was, however, 100% let at 1 April 2017.*

### WEIGHTED AVERAGE RENTAL AND ESCALATIONS

#### Weighted average rental

The weighted average rental per unit of the properties for the 3 month period to 31 December 2016 is presented in the table below:

	R/m <sup>2</sup>	R/unit
<b>Sector</b>		
Residential	100.5	5 053

#### Weighted average escalation

The projected weighted average escalation for the portfolio, from 2016 to 2017, is 3% to 4.5%..

The average annualised property yield of the properties (based on the independent property valuations) for the 12 months ending 31 December 2017 is 8.6%.

## Property listing

	Physical address and province	Market valuation of the property* (R)	Effective date of acquisition	Total GLA	Total number of units
67 on 7th	67 Seventh Avenue, Edenvale, Gauteng	91 800 000	1 Oct 16	8 478	204
Acacia Place	Mara Street, Witbank, Mpumalanga	133 800 000	1 Oct 16	16 250	325
Alpine Mews	72 Forest Road, Eersterivier, Western Cape	32 100 000	1 Oct 16	4 005	90
Ekhaya Fleurhof	40 Salinga Crescent, Fleurhof Ext 3, Gauteng	65 000 000	1 Oct 16	6 642	162
Ekhaya Jabulani	2342 Dikgathlehong Street, Jabulani, Gauteng	88 600 000	1 Oct 16	10 004	244
Jackalberry Close	23 Sydney Road, Jansen Park, Gauteng	112 400 000	1 Oct 16	10 713	252
Kensington Place	26 Dover Street, Ferndale, Gauteng	33 800 000	1 Oct 16	2 376	56
Molware	Corner Rietspruit Road & Morithi Street, Kosmosdal, Gauteng	135 900 000	1 Oct 16	11 937	252
Parklands	Along Southwark & Dartford Street, Parklands, Western Cape	93 500 000	1 Oct 16	10 044	187
Village Seven, Stone Arch Village	19 Brookhill Road, Gauteng	54 900 000	1 Oct 16	6 039	114
Terenure Estate	Corner Oranjerivier & Bergrivier drive, Terenure Ext 70,	210 000 000	1 Oct 16	22 028	350
Theresa Park Estates	60 Burning Bush Street, Theresa Park Ext 45, Gauteng	92 850 000	1 Oct 16	12 388	242
Tradewinds	255 Kent Avenue, Ferndale, Gauteng	44 750 000	1 Oct 16	3 730	85
<b>Total</b>		<b>1 189 400 000</b>		<b>124 634</b>	<b>2 563</b>

\* As valued by the independent property valuer.

One bed	Two bed	Three bed	Total number of units owned by Transcend	Number of vacant units	Vacancy (% of units as at 31 December 2016)	Weighted average rental per square meter (R/m <sup>2</sup> )
—	157	—	157	1	0.6	100
—	325	—	325	91	0.3	79
—	90	—	90	2	1.1	82
—	162	—	162	3	0.6	97
—	244	—	244	4	0.4	96
—	208	—	208	18	0.5	104
—	56	—	56	1	1.8	140
—	252	—	252	4	0.4	111
—	187	—	187	3	0.5	101
—	114	—	114	12	0.9	102
—	282	68	350	9	0.3	97
68	174	—	242	21	0.4	78
85	—	—	85	1	1.2	125
<b>153</b>	<b>2 251</b>	<b>68</b>	<b>2 472</b>	<b>170</b>	<b>6.9</b>	<b>101</b>

# Shareholders' information

## Shareholders' profile and JSE information as at 31 December 2016

	Number of holders	Number of shares	% of capital
Non-public	5	59 046 443	89.05
Public	142	7 259 219	10.95
<b>Total</b>	<b>147</b>	<b>66 305 662</b>	<b>100.00</b>

	Number of holders	% of total shareholders	Number of shares	% of total issued share capital
<b>DISTRIBUTION OF SHAREHOLDERS</b>				
Individuals	127	86.99	426 060	0.64
Investment companies	7	4.79	12 376 679	18.67
Other corporations	6	4.11	12 995 247	19.60
Trusts	6	4.11	40 507 676	61.09
<b>Total</b>	<b>146</b>	<b>100.00</b>	<b>66 305 662</b>	<b>100.00</b>

	Number of holders	% of total shareholders	Number of shares	% of total issued share capital
<b>RANGE ANALYSIS AT 31 DECEMBER 2016</b>				
1 — 1 000 shares	26	17.81	9 137	0.01
1 001 — 10 000 shares	105	71.92	319 665	0.48
10 001 — 100 000 shares	9	6.16	330 417	0.50
100 001 — 1 000 000 shares	—	0.00	—	0.00
1 000 001 shares and over	6	4.11	65 646 443	99.01
<b>Total</b>	<b>146</b>	<b>100.00</b>	<b>66 305 662</b>	<b>100.00</b>

The following holders of shares hold, beneficially directly or indirectly, at 31 December 2016 in excess of 5% of the issued share capital:

	Number of shares	% of capital
SAWHF SA Rental 3 Trust	20 299 650	30.62
SAWHF SA Rental 4 Trust	20 183 629	30.00
Business Venture Investments No 148	12 251 898	30.44
SA Corporate Real Estate Fund	6 600 000	9.95
Sugar Creek Trading 289 (Pty) Ltd	4 628 008	6.98

## SHARE PRICE INFORMATION

Opening price on 1 December 2016	R6.75
Closing price on 31 December 2016	R8.00
Closing high for period	R8.00
Closing low for period	R6.25
Number of shares in issue	66 305 663
Volume traded during period	6 510
Ratio of volume traded to shares issued (%)	0.01
Rand value traded during the period	R43 006
Market capitalisation at 31 December 2016	R530 445 304

# Notice of annual general meeting 2017

## TRANSCEND RESIDENTIAL PROPERTY FUND LIMITED

Registration number: 2016/277183/06

JSE share code: TPF

ISIN: ZAE000227765

("Transcend" or "the company")

Notice is hereby given that the company's first annual general meeting ("AGM" or "the meeting") will be held at 54 Peter Place, Peter Place Office Park, Block G, Glasgow House, Ground Floor, Bryanston, Johannesburg on 29 June 2017 at 10:00.

Shareholders entitled to receive this notice are shareholders as recorded in the company's register on 26 May 2017. The record date on which shareholders must be recorded in the register maintained by the transfer secretaries of the company for purposes of being entitled to attend and vote at the meeting is 23 June 2017. Accordingly, the last day to trade is 20 June 2017.

Kindly note that meeting participants (shareholders and proxies) are required to provide reasonably satisfactory identification before being entitled to attend or participate in a shareholders' meeting. Forms of identification include valid identity documents, driver's licences and passports.

A quorum for the purposes of considering the resolutions to be proposed at the meeting shall consist of three shareholders of the company personally presented or represented by proxy and entitled to vote at the meeting. In addition, the quorum shall comprise 25% of all voting rights entitled to be exercised by shareholders.

### ELECTRONIC PARTICIPATION IN THE AGM

Shareholders or their proxies may participate in the AGM by way of a teleconference call. If they wish to do so they:

- > must contact the company secretary (by email at [kwaldeck@corpstat.co.za](mailto:kwaldeck@corpstat.co.za)) by no later than 10:30 on 27 June 2017 in order to obtain dial-in details for the conference call;
- > will be required to provide reasonably satisfactory identification, in advance;
- > will be billed separately by their own telephone service provider for the telephone call to participate in the AGM;
- > electronic participation in the AGM will not entitle a shareholder to vote. Should a shareholder wish to vote at the AGM, he may do so by attending the AGM either in person or by proxy.

The purpose of the meeting is to present the annual financial statements for the year ending 31 December 2016 and to consider, if deemed fit, to pass, with or without modification, the ordinary and special resolutions set out in this notice.

The annual financial statements are presented at the AGM in accordance with section 30(3)(d), and section 60(3)(d) of the Companies Act 71 of 2008. The complete set of annual financial statements are available on [www.transcendproperty.co.za](http://www.transcendproperty.co.za).

## Ordinary resolutions

The percentage of voting rights required for an ordinary resolution to be adopted is more than 50% (fifty percent) of the voting rights exercised on the resolution at a quorate meeting.

### 1. ORDINARY RESOLUTION NUMBER 1: RE-ELECTION AND ELECTION OF DIRECTORS

"RESOLVED to individually elect the following individuals as directors of the company (ordinary resolutions 1.1 to 1.8). The Board recommends the election of the retiring directors in terms of the memorandum of incorporation ("MOI"), and being eligible, thereto make themselves available for re-election."

- 1.1 Ordinary resolution 1.1: Re-election of RR Emslie as an independent non-executive director and Chairman
- 1.2 Ordinary resolution 1.2: Re-election of MS Aitken as an independent non-executive director
- 1.3 Ordinary resolution 1.3: Re-election of FN Khanyile as an independent non-executive director
- 1.4 Ordinary resolution 1.4: Re-election of CP Conaty as a non-executive director
- 1.5 Ordinary resolution 1.5: Re-election of ML Falcone as a non-executive director
- 1.6 Ordinary resolution 1.6: Re-election of DP Lange as executive director
- 1.7 Ordinary resolution 1.7: Re-election of RN Wesselo as executive director
- 1.8 Ordinary resolution 1.8: Re-election of S Mboweni as executive director

Refer to pages 12 to 13 of the integrated report for a brief curriculum vitae of the directors.

**Explanatory note:** The reason for proposing ordinary resolution numbers 1.1 to 1.8 is that clause 25.12.1 of the company's MOI requires that all directors retire at the first annual general meeting of the company.

### 2. ORDINARY RESOLUTION NUMBER 2: ELECTION OF AUDIT COMMITTEE MEMBERS

"RESOLVED to individually elect the following independent non-executive directors (ordinary resolutions 2.1 to 2.3) of the company as members of the Audit and Risk Committee. The Board recommends the election of these members."

- 2.1 Ordinary resolution 2.1: Election of RR Emslie as a member of the Audit and Risk Committee, whose dual role as Chairman of the Board and member of the Audit and Risk Committee is hereby specifically approved
- 2.2 Ordinary resolution 2.2: Election of FN Khanyile as a member of the Audit and Risk Committee
- 2.3 Ordinary resolution 2.3: Election of MS Aitken as a member of the Audit and Risk Committee and Chairman

Refer to page 12 of the integrated report for a brief curriculum vitae of each proposed member.

**Explanatory note:** Ordinary resolution numbers 2.1 to 2.3 are proposed to appoint members of the Audit and Risk Committee in accordance with the guidelines of King III and the requirements of the Companies Act. In terms of the aforementioned requirements, the Audit and Risk Committee should comprise a minimum of three members, all of whom must be independent non-executive directors of the company. Furthermore, in terms of the Companies Regulations 2011, at least one-third of the members of the Audit and Risk Committee at any particular time must have academic qualifications, or experience, in economics, law, corporate governance, finance, accounting, commerce, industry, public affairs or human resource management. Mindful of the foregoing, the Board recommended that the aforementioned persons be members of the Audit and Risk Committee.

**3. ORDINARY RESOLUTION NUMBER 3: APPOINTMENT OF EXTERNAL AUDITORS**

“RESOLVED THAT KPMG Incorporated be re-appointed as the independent external auditors of the company, it being noted that Gabriel Stephanus Kolbé is the registered individual auditor who will undertake the audit.”

**Explanatory note:** The reason for proposing ordinary resolution number 3 is that the company’s independent external auditors must be reappointed at each AGM, in compliance with section 90 of the Companies Act. The Audit and Risk Committee and the Board have evaluated the performance of KPMG Incorporated and recommend their reappointment as the independent external auditors of the company.

**4. ORDINARY RESOLUTION NUMBER 4: GENERAL AUTHORITY TO ISSUE SHARES FOR CASH**

“RESOLVED that the directors of the company be and they are hereby authorised, in accordance with the company’s MOI, the Companies Act and the JSE Listings Requirements, to allot and issue for cash, as and when they in their discretion deem fit the ordinary shares in the authorised but unissued share capital of the company, subject to the following conditions:

- › this authority is valid until the company’s next AGM, provided that it will not extend beyond 15 (fifteen) months from the date that this authority is given;
- › the ordinary 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 securities or rights that are convertible into or represent options in respect of a class already in issue;
- › any such issue will only be made to ‘public shareholders’ as defined in the JSE Listings Requirements and not to related parties;
- › the number of shares issued for cash will not in aggregate exceed 50% (fifty percent) of the company’s listed ordinary shares (excluding treasury shares) as at the date of the notice of AGM, such number being 33 152 831 ordinary shares in the company’s issued share capital;
- › any ordinary shares issued under this authority during the period of its validity must be deducted from the above number of ordinary shares and the authority shall be adjusted accordingly to represent the same allocation ratio on the event of a subdivision or consolidation of ordinary shares during the same period;

- › the maximum discount permitted at which ordinary shares may be issued is 10% (ten percent) of the weighted average traded price on the JSE of those shares over the 30 (thirty) 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
- › an announcement giving full details of the issue, will be published at the time of any issue representing, on a cumulative basis within 1 (one) financial year, 5% (five percent) of the number of shares in issue prior to the issue.”

In terms of the JSE Listings Requirements, the percentage of voting rights required to pass this resolution is at least 75% (seventy five percent) of the voting rights exercised at a quorate meeting.

**Explanatory note:** The reason for proposing ordinary resolution number 4 is that the directors consider it advantageous to have the authority to issue ordinary shares for cash in order to enable the company to take advantage of any business opportunity which might arise in the future.

**5. ORDINARY RESOLUTION NUMBER 5: AUTHORITY TO IMPLEMENT RESOLUTIONS**

“RESOLVED to authorise and empower any two directors or the company secretary and any director signing together, to do all such things and sign all such documents and take all such actions as they consider necessary, to implement the resolutions set out in this notice convening the 2017 AGM of the company.”

**6. ORDINARY RESOLUTION NUMBER 6: APPROVAL TO AMEND THE ASSET MANAGEMENT AGREEMENT**

“RESOLVED THAT, the shareholders of the company approve the retrospective amendment of the Asset Management Agreement signed between Transcend and IHS Asset Management (Pty) Ltd, which came into effect on 1 October 2016, as follows:

- › in determining the Market Capitalisation, the volume weighted average traded price of a security on the JSE is to be changed from 10 (ten) trading days to the number of trading days during that calendar month. Provided that in the absence of trade on more than 2 (two) days in that calendar month, the volume weighted average traded price will be the volume weighted average traded price of the last occurring calendar month in which securities traded on more than 2 (two) days in a calendar month.”

In terms of the JSE Listings Requirements, the percentage of voting rights required to pass this resolution is more than 50% (fifty percent) of the voting rights exercised at a quorate meeting, excluding any parties or their associates who are party to or have an interest in the contract.

**Explanatory note:** The reason for proposing ordinary resolution number 6 is that the directors consider the number of trading days during a calendar month as a more appropriate measure of Market Capitalisation, as Transcend securities are thinly traded and liquidity is low which could cause both negative and positive fluctuations to the calculation of the asset management fee on a monthly basis.

**7. NON-BINDING ORDINARY RESOLUTION NUMBER 1: ENDORSEMENT OF REMUNERATION POLICY**

“RESOLVED THAT shareholders endorse, through a non-binding advisory vote, to determine the shareholders’ view of Transcend’s remuneration policy (excluding the remuneration of non-executive directors) and its implementation.”

The complete remuneration policy is available on [www.transcendproperty.co.za](http://www.transcendproperty.co.za).

**Explanatory note:** In terms of King III, an advisory vote should be obtained from shareholders on the company's annual remuneration policy. The vote allows shareholders to express their view on the remuneration policy adopted and its implementation, but will not be binding on the company.

## Special resolutions

The percentage of voting rights required for a special resolution to be adopted is at least 75% (seventy-five percent) of the voting rights exercised on the resolution at a quorate meeting.

### 8. SPECIAL RESOLUTION NUMBER 1: APPROVAL OF NON-EXECUTIVE DIRECTORS' REMUNERATION

"RESOLVED THAT in terms of section 66(9) of the Companies Act, payment of the remuneration for the services as non-executive directors of the company for a period of two years from the date of passing of this special resolution, or until its renewal, whichever is the earliest, as set out below:"

The three independent non-executive directors each receive R180 000 for the 2017 financial year, exclusive of VAT where applicable. No fees are paid to the non-independent non-executive directors.

**Explanatory note:** This resolution is proposed in order to comply with the requirements of the Companies Act. In terms of section 65(11)(h) of the Companies Act, read with section 66(8) and 66(9), remuneration may only be paid to directors for their services as directors in accordance with a special resolution approved by the shareholders within the previous two years.

### 9. SPECIAL RESOLUTION NUMBER 2: GENERAL AUTHORITY TO REPURCHASE SHARES

"RESOLVED THAT the company is authorised, by way of a general authority as contemplated in section 48 of the Companies Act, to repurchase or purchase, as the case may be, shares issued by the company, on such terms and conditions and in such numbers as the directors of the company or the subsidiary may from time to time determine, subject to the applicable provisions of the company's MOI, the provisions of the Companies Act and the JSE Listings Requirements when applicable, and subject to the following:

- > the repurchase of securities is implemented through the order book of the JSE's trading system, without any prior understanding or arrangement between the company and the counterparty;
- > the company is so authorised by its MOI;
- > the general authority shall be valid only until the company's next AGM or 15 months from the date of passing of this special resolution, whichever is earlier;
- > in determining the price at which the company's ordinary shares are acquired by the company and/or subsidiary of the company, 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 price at which such ordinary shares are traded on the JSE, as determined over the 5 (five) days immediately preceding the date of the repurchase of such ordinary shares;

- > the acquisitions by the company of its own ordinary shares in the aggregate in any one financial year do not exceed 20% (twenty percent) of the company's issued ordinary share capital from the beginning of the financial year;
- > the number of shares purchased by the subsidiaries of the company shall not exceed 10% (ten percent) in the aggregate of the number of issued shares of the company at the relevant times;
- > the company appoints only one agent to effect any repurchase(s) on its behalf;
- > when the company has cumulatively repurchased 3% (three percent) of the initial number of the relevant class of securities, and for each 3% (three percent) in aggregate of the initial number of that class acquired thereafter, an announcement will be made containing full details of such repurchases;
- > the company or its subsidiaries will not repurchase securities during a prohibited period as defined in the JSE Listings Requirements unless they have in place a repurchase programme where the dates and quantities of the securities to be traded during the relevant period are fixed (not subject to any variation) and has been submitted to the JSE in writing prior to the commencement of the prohibited period; and
- > the Board resolved that it authorises the repurchase, and that the company and its subsidiary/ies have passed the solvency and liquidity test and that since the test was performed there have been no material changes to the financial position of the company."

The directors will ensure that, after considering the effect of the maximum repurchases permitted in terms of this resolution, that:

- > the company will be able in the ordinary course of business to pay its debts for a period of 12 (twelve) months after the date of the notice of AGM;
- > the assets of the company will be in excess of the liabilities of the company for a period of 12 (twelve) months after the date of the notice of the AGM, which assets and liabilities have been valued in accordance with the accounting policies used in the audited financial statements of the company for the year ended 31 December 2016;
- > the share capital and reserves of the company will be adequate for ordinary business purposes for a period of 12 (twelve) months after the date of the notice of the AGM; and
- > the working capital of the company will be adequate for ordinary business purposes for a period of 12 (twelve) months after the date of the notice of AGM.

**Explanatory note:** The reason for and effect of special resolution number 2 is to authorise the company to acquire the company's issued ordinary shares on terms and conditions and in amounts to be determined by the directors. A repurchase of shares is not contemplated at the date of this notice. However, the Board believes it to be in the best interest of the company that shareholders grant a general authority to provide the Board with optimum flexibility to repurchase shares as and when an opportunity that is in the best interest of the company arises.

**10. SPECIAL RESOLUTION NUMBER 3: GENERAL AUTHORITY TO PROVIDE FINANCIAL ASSISTANCE TO RELATED OR INTER-RELATED ENTITIES**

“RESOLVED THAT the Board of directors of the company be and is hereby authorised, to the extent required by and subject to sections 44 and 45 of the Companies Act and the requirements, if applicable of (i) the Memorandum of Incorporation; and (ii) the JSE Listings Requirements, to cause the company to provide direct or indirect financial assistance to a related or inter-related company or to a shareholder of a related or inter-related company, provided that no such financial assistance may be provided at any time in terms of this authority after the expiry of two years from the adoption of this special resolution no. 3.”

**Explanatory note:** Notwithstanding the title of section 45 of the Companies Act, being “Loans or other financial assistance to director”, on a proper interpretation, the body of the section may also apply to financial assistance provided by a company to related or inter-related companies, including, among others, its subsidiaries, for any purpose. Furthermore, section 44 of the Companies Act may also apply to financial assistance so provided by a company to related or inter-related companies, in the event that financial assistance is provided for the purposes of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the company or a related or inter-related company, or for the purchase of any securities of the company or a related or inter-related company. Both sections 44 and 45 of the Companies Act provide, among others, that the particular financial assistance must be provided only pursuant to a special resolution of the shareholders, adopted within the previous two years, which approved such assistance whether for the specific recipient, or generally for a category of potential recipients, and the specific recipient falls within that category and the Board of directors must be satisfied that (a) immediately after approving the financial assistance, the company would satisfy the solvency and liquidity test; and (b) the terms under which the financial assistance is proposed to be given are fair and reasonable to the company.

In the normal course of business the company is often required to grant financial assistance, including but not limited to loans and/or guarantees in favour of third parties, such as financial institutions, service providers and counterparties (in respect of the provision of banking facilities, acquisition transactions and debt capital) for the obligations of the company or a related or inter-related company, or to a shareholder of a related or inter-related company, or to a person related to any such company. Special resolution number 3 will enable the company to provide such financial assistance to subsidiaries and juristic persons in the company or other person that is or becomes related or inter-related to the company for any purpose in the normal course of business.

**11. SPECIAL RESOLUTION NUMBER 4: APPROVAL TO ISSUE SHARES IN TERMS OF SECTION 41(1) OF THE COMPANIES ACT 71 OF 2008**

“RESOLVED THAT, in accordance with section 41(1) of the Companies Act, and subject to the JSE Listings Requirements, the issue by the company of shares to any director, future director, prescribed officer or future prescribed officer of the company, or to a person related or inter-related to the company, or to a person related or inter-related to a director or prescribed officer of the company, or to any nominee of such person, in terms of any placement, offer, book-build or similar capital raising, at the same price and at the same terms as those upon which shares are issued to other investors in terms of such capital raising, be and is hereby approved”

**Explanatory note:** The reason for special resolution number 4 is to authorise the issue of shares in terms of capital raisings if and to the extent that such shares are issued to directors of the company and related persons.

**FURTHER DISCLOSURES IN TERMS OF PARAGRAPH 11.26 OF THE JSE LISTINGS REQUIREMENTS**

The following information listed below is included in the integrated report:

- > major beneficial shareholders — page 76;
- > share capital of the company — page 61.

## Material changes

Other than the facts and developments reported on in the integrated report, there have been no material changes in the affairs or financial position of the company and its subsidiaries since the date of signature of the annual financial statements and up to the date of this notice.

## Directors’ responsibility statement

The directors, whose names appear in the 2016 annual financial statements, collectively and individually, accept full responsibility for the accuracy of the information given in this notice and certify that to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement false or misleading and that all reasonable enquiries to ascertain such facts have been made and that this notice contains all information required by law and the JSE Listings Requirements.

By order of the Board



**Karen Waldeck**  
Company Secretary

CorpStat Governance Services (Pty) Ltd  
24 May 2017

# Form of proxy

## TRANSCEND RESIDENTIAL PROPERTY FUND LIMITED

Registration number: 2016/277183/06 | JSE share code: TPF | ISIN: ZAE000227765 | (“Transcend” or “the company”)

Only to be completed by certificated and dematerialised shareholders with “own name” registration.

If you are a dematerialised shareholder, other than with “own name” registration, do not use this form. Dematerialised shareholders, other than those with “own name” registration who wish to attend the annual general meeting, must inform their CSDP or broker of their intention to attend and request their CSDP or broker to issue them with the relevant letter of representation to attend the annual general meeting in person and vote, or, if they do not wish to attend the annual general meeting in person, but wish to be represented thereat, 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 in the manner and cut-off time stipulated therein.

All forms of proxy must be lodged at the company’s transfer secretaries, Link Market Services South Africa Pty Ltd, 13th Floor, Rennie House, 19 Ameshoff Street, Braamfontein 2001 (PO Box 4844, Johannesburg, 2000), meetfax@linkmarketservices.co.za by no later than 10:00 on 27 June 2017. Alternatively, the form of proxy may be handed to the transfer secretaries at the annual general meeting at any time prior to the commencement of the annual general meeting.

I/We \_\_\_\_\_

being an ordinary shareholder(s) of the company holding \_\_\_\_\_ ordinary shares in the Company, do hereby appoint:

1. \_\_\_\_\_

2. \_\_\_\_\_

3. the Chairman of the annual general meeting, as my/our proxy to vote on my/our behalf at the abovementioned annual general meeting and any adjournment thereof, to be held at 54 Peter Place, Peter Place Office Park, Block G, Glasgow House, Ground Floor, Bryanston, Johannesburg on 29 June 2017 at 10:00 for the purpose of considering and, if deemed fit, passing with or without modifications, the following ordinary and special resolutions to be considered at such meeting:

	In favour	Against	Abstain
<b>ORDINARY RESOLUTIONS</b>			
<b>1. Ordinary resolution No. 1: Re-election of directors</b>			
1.1 Re-election of RR Emslie			
1.2 Re-election of MS Aitken			
1.3 Re-election of FN Khanyile			
1.4 Re-election of CP Conaty			
1.5 Re-election of ML Falcone			
1.6 Re-election of DP Lange			
1.7 Re-election of RN Wesselo			
1.8 Re-election of S Mboweni			
<b>2. Ordinary resolution No. 2: Election of Audit and Risk Committee members</b>			
2.1 Election of RR Emslie as Audit and Risk Committee member			
2.2 Election of FN Khanyile as Audit and Risk Committee member			
2.3 Election of MS Aitken as Audit and Risk Committee member			
<b>3. Ordinary resolution No. 3: Appointment of external auditors</b>			
<b>4. Ordinary resolution No. 4: General authority to issue shares for cash</b>			
<b>5. Ordinary resolution No. 5: Authority to implement resolutions</b>			
<b>6. Ordinary resolution No. 6: Approval to amend the Asset Management Agreement</b>			
<b>7. Non-binding ordinary resolution No. 1: Endorsement of remuneration policy</b>			
<b>SPECIAL RESOLUTIONS</b>			
<b>8. Special resolution No. 1: Approval of non-executive directors’ remuneration</b>			
<b>9. Special resolution No. 2: General authority to repurchase shares</b>			
<b>10. Special resolution No. 3: General authority to provide financial assistance to related or inter-related entities</b>			
<b>11. Special resolution No. 4: Approval to issue shares in terms of section 41(1) of the Companies Act 71 of 2008</b>			

Insert an “X” in the appropriate block. If no indications are given, the proxy will vote as he/she deems fit. Each shareholder entitled to attend and vote at the meeting may appoint one or more proxies (who need not be a shareholder of the company) to attend, speak and vote in his/her stead.

Signed at \_\_\_\_\_ on \_\_\_\_\_ 2017

Signature \_\_\_\_\_

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

Please read the notes on the reverse side hereof.

# Notes to the form of proxy

1. A shareholder may insert the names of a proxy or the names of two alternative proxies of the shareholder's choice in the space provided, with or without deleting "the Chairman of the annual general meeting", but any such deletion must be initialled by the shareholder. The person whose name appears first on this form of proxy and which has not been deleted shall be entitled to act as proxy to the exclusion of those names following.
2. A shareholder is entitled to one vote on a show of hands on a poll, one vote in respect of each ordinary share held. A shareholder's instructions to the proxy must be indicated by inserting the relevant number of votes exercisable by the shareholder in the appropriate box. Failure to comply with this 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 shareholder's votes.
3. A vote given in terms of an instrument of proxy shall be valid in relation to the annual general meeting, notwithstanding the death, insanity or other legal disability of the person granting it, or the revocation of the proxy, or the transfer of the ordinary shares in respect of which the proxy is given, unless an intimation as to any of the aforementioned matters shall have been received by the transfer secretaries or by the Chairman of the annual general meeting before the commencement of the annual general meeting.
4. If a shareholder does not indicate on this form of proxy that his/her proxy is to vote in favour of or against any resolution or to abstain from voting, or gives contradictory instructions, or should any further resolution(s) or any amendment(s) which may properly be put before the annual general meeting, be proposed, the proxy shall be entitled to vote as he/she thinks fit.
5. The authority of a person signing a proxy in a representative capacity must be attached to this form of proxy unless that authority has already been recorded with the company's transfer secretary or waived by the Chairman of the annual general meeting.
6. A minor or any other person under legal incapacity must be assisted by his/her parent or guardian as applicable, unless the relevant documents establishing capacity are produced or have been registered with the transfer secretaries.
7. Where there are joint holders of ordinary shares:
  - > any one holder may sign the form of proxy; and
  - > the vote(s) of the senior shareholders (for that purpose seniority will be determined by the order in which the names of ordinary shareholders appear in the Company's register) who tender a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholder(s).
8. It is requested that proxies be lodged at or posted to the company's transfer secretaries, Link Market Services South Africa Pty Ltd, 13th Floor, Rennie House, 19 Ameshoff Street, Braamfontein 2001 (PO Box 4844, Johannesburg, 2000) meetfax@linkmarketservices.co.za, to be received not later than 10:00 on 27 June 2017. Alternatively, the form of proxy may be handed to the transfer secretaries at the annual general meeting at any time prior to the commencement of the annual general meeting.
9. Any alteration or correction made to this form of proxy, other than the deletion of alternatives, must be initialled by the signatory/ies.
10. The completion and lodging of this form of proxy shall not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.
11. The Chairman of the annual general meeting may reject or accept a form of proxy that is completed, other than in accordance with these instructions and notes, provided that the Chairman is satisfied as to the manner in which a shareholder wishes to vote.
12. Subject to the restrictions set out in this form of proxy, a proxy may not delegate the proxy's authority to act on behalf of a shareholder to another person.

# Glossary

“All Share”	The JSE All Share Index
“AltX”	Alternative Exchange of the JSE Limited
“Companies Act”	Companies Act 71 of 2008, as amended
“enterprise value”	The Market Capitalisation plus the aggregate debt outstanding
“GLA”	Gross lettable area
“HEPS”	Headline earnings per share
“IASB”	International Accounting Standards Board
“IFRS”	International Financial Reporting Standards
“IHS”	International Housing Solutions (RF) (Pty) Limited
“IHS AM”	International Housing Solutions Asset Management (Pty) Ltd
“IHS PM”	International Housing Solutions Property Management (Pty) Ltd
“JSE”	JSE Limited
“King III”	King Report on Corporate Governance for South Africa 2009
“NAV”	Net asset value
“REIT”	Real Estate Investment Trust
“SAICA”	South African Institute of Chartered Accountants
“SAWHF”	South African Workforce Housing Fund SA (PVE)
“stabilised property”	A property becomes stabilised once all units have been fully let after an empty new-build property is acquired. A stabilised property is subject to the natural turnover and vacancy rates that can be expected on an ongoing basis.
“the Board”	The Board of Directors of Transcend
“Transcend”; “the company”	Transcend Residential Property Fund Limited

# Corporate information

## Registered office of the company

Transcend Residential Property Fund Limited  
(Registration number 2016/277183/06)  
54 Peter Place  
Block G  
Peter Place Office Park  
Bryanston, 2191  
(PO Box 1686, Randburg, 2125)

## Corporate advisor and bookrunner

Java Capital (Pty) Ltd  
(Registration number 2012/089864/07)  
6A Sandown Valley Crescent  
Sandown  
Sandton, 2196  
(PO Box 2087, Parklands, 2121)

## Attorneys

White & Case SA  
(Registration number 2013/220413/21)  
Incorporated as Coetzer Whitley Inc.  
4th Floor, Block B, 102  
Rivonia Road  
Sandton, 2196  
(PO Box 784440, Sandton, 2146)

## Independent property valuer

Real Insight (Pty) Ltd  
(Registration number 2012/101775/07)  
5th Floor, North Wing  
Hyde Park Corner  
Hyde Park  
Sandton, 2196  
(PO Box 413581, Craighall, 2024)

## Transfer secretary

Link Market Services South Africa (Pty) Ltd  
(Registration number 2000/007239/07)  
19 Ameshoff Street  
13th Floor, Rennie House  
Braamfontein  
Johannesburg, 2001  
(PO Box 4844, Johannesburg, 2000)

## Asset manager

IHS Asset Management (Pty) Ltd  
(Registration number 2016/399895/07)  
54 Peter Place  
Block G  
Peter Place Office Park  
Bryanston, 2191  
(PO Box 1686, Randburg, 2125)

## Property manager

IHS Property Management (Pty) Ltd  
(Registration Number 2015/009733/07)  
54 Peter Place  
Block G  
Peter Place Office Park  
Bryanston, 2191  
(PO Box 1686, Randburg, 2125)

## Company secretary

CorpStat Governance Services (Pty) Ltd  
(Registration Number 2004/001556/07)  
Hurlingham Office, Hurlingham Office Park,  
Block C, 59 Woodlands Avenue,  
Hurlingham, 2196  
(PO Box 724, Melville, 2109)

## Sponsor

Java Capital Trustees and Sponsors (Pty) Ltd  
(Registration number 2006/005780/07)  
6A Sandown Valley Crescent  
Sandown  
Sandton, 2196  
(PO Box 2087, Parklands, 2121)

## Independent reporting accountants and auditors

KPMG Inc.  
(Registration number 1999/021543/21)  
85 Empire Road, Parktown  
Johannesburg, 2193  
(Private Bag 9, Parkview, 2122)

## Bankers

The Standard Bank of South Africa Limited  
(Registration number 1962/000738/06)  
2nd Floor, Rosebank Corner  
191 Jan Smuts Avenue  
Parktown North  
Johannesburg, 2193  
(PO Box 8786, Johannesburg, 2000)

## Tax advisor

Java Capital Tax Advisory (Pty) Ltd  
(Registration number 2015/063226/07)  
6A Sandown Valley Crescent  
Sandown  
Sandton, 2196  
(PO Box 2087, Parklands, 2121)



