Transcend Residential Property Fund Limited
(Incorporated in the Republic of South Africa)
Registration Number 2016/277183/06
JSE share code TPF
ISIN: ZAE000227765
(Approved as a REIT by the JSE)
("Transcend" or "the Company")

Provisional summarised audited financial statements for the year ended 31 December 2017

1 Basis of preparation

The summary financial statements have been prepared in accordance with the requirements of the JSE Listings Requirements for provisional reports, and the requirements of the Companies Act of South Africa, No 71 of 2008, as amended, applicable to summary financial statements. The JSE Limited ("JSE") Listings Requirements require provisional reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the financial statements from which the summary financial statements were derived are in terms of International Financial Reporting Standards and are consistent with those applied to the financial statements for the period ended 31 December 2016, as published on 31 May 2017.

The provisional summarised report is extracted from audited information, but is not itself audited. The financial statements were audited by KPMG Inc., who expressed an unmodified opinion thereon. Shareholders are advised that in order obtain a full understanding of the nature of the auditor's engagement, they should obtain a copy of the auditor's report together with the accompanying audited financial statements, both of which are available for inspection at the company's registered office. The directors of Transcend take full responsibility for the preparation of this report and that the selected financial information has been correctly extracted from the underlying financial statements.

David Peter Lange CA(SA), Transcend's chief financial officer, was responsible for supervising the preparation of the financial statements that this provisional report summarises, as well as the preparation of these summary financial statements.

2 Directors' report

Commentary

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. The Company's strategy is to establish a track record of consistent performance and growth in distributions. The Company intends to maximise the performance of its initial portfolio and only acquire additional properties that are stabilised.

59 046 443 shares were issued on 1 October 2016 at R10 per share as part of the purchase agreements of each of the 13 properties owned by the Company. Transcend listed on the Alternative Exchange of the JSE Limited on 1 December 2016 and 7 259 219 ordinary shares were issued to the public at R6,75 per share. Following the acquisition of the initial portfolio of 13 properties, settled through the issue of Transcend shares and successful private placement on listing, the total number of shares in issue is 66 305 662. No further shares were issued during the year ended 31 December 2017.

Transcend was incorporated on 8 July 2016, and the comparative reporting period therefore covers 6 months from 1 July 2016 to 31 December 2016. Note that the prior period results presented in the financial statements represent operating activities for 3 months only as Transcend recognised income and expenditure from the effective date of the property acquisitions as of 1 October 2016.

3 Results

On 7 March 2018, the board declared a distribution of 34.23125 cents per share for the six months ended 31 December 2017. This brings the full year distribution to 64.04000 cents per share (2016: 5.60803 cents per share), which is 2% greater than the forecast dividend per share of 62.75993 cents per share (2016: 2.10 cents per share) published in the Company's Listing Prospectus issued on 16 November 2016. The variance primarily relates to surplus working capital being available for distribution.

Profit and total comprehensive income for the period amounts to R67.98 million (2016: R16.50 million) whilst the forecast for 2017 as per the Listing Prospectus issued on 16 November 2016, was a net profit of R41.45 million (2016: net loss for the period of R9.92 million). The variance between the actual profit for the current period and the forecast as per Listing Prospectus is due to a net gain on fair value adjustments to investment property of R29.24 million (2016: R11.34 million), and an unrealised loss on revaluation of interest-rate swaps of R3.03 million. The headline earnings attributable to equity holders is R38.73 million (2016: R5.14 million) whilst the forecast as per the Listing Prospectus was R41.45 million (2016: R5.49 million), with the negative variance being largely due to the loss of R3.03 million on the revaluation of the interest-rate swaps. The total assets as at 31 December 2017 amounted to R1.27 billion (2016: R1.23 billion) and the forecast as per the Listing Prospectus was R1.17 billion.

4 Property portfolio

Acquisitions

Transcend made no acquisitions during the year under review.

There are 13 residential properties in Transcend's portfolio, which consists of 2 472 units valued at R1.219 billion (2016: R1.189 billion).

Geographically, the properties are located in the following provinces:

| | |
|---|---|
| Gauteng | 80% |
| Western Cape | 12% |
| Mpumalanga | 8% |

The above allocation is based on Gross lettable area ("GLA")

5 Vacancies

Based on existing leases as at 31 December 2017, the total portfolio's vacancy rate was 7.28%. However, if Acacia Place, which has a large vacancy due to the expiry of a bulk lease prior to year end is excluded, the vacancy rate of the stabilised portfolio is 4.13%. It is expected that the vacancies of the stabilised portfolio will remain within the 2% to 6% range.

6 Facilities

The debt balance as at 31 December 2016 of R547 million from various funders was partially paid-down and re-financed by the Standard Bank of South Africa Limited ("Standard Bank") on 31 January 2017. This was done in order to consolidate the debt funding and secure a lower average cost of debt. The new debt facility is made up as follows:

- Facility A, Tranche 1 of R274 million at 3-month JIBAR plus 1.85% with a maturity date 36 months from date of drawdown;
- Facility A, Tranche 2 of R274 million at 3-month JIBAR plus 2.35% with a maturity date 60 months from date of drawdown; and
- Facility B of R10 million at prime less 1% with a maturity date 36 months from date of drawdown.

The administrative fee of R1.548 million on the raising of the new loan facility was capitalised and is amortised over 4 years.

The new Standard Bank facility is secured by the investment properties owned by Transcend with a carrying value of R1.219 billion. Interest is payable quarterly. Transcend currently has interest-rate swaps on these facilities. The 3-year tranche is 50% hedged by an interest-rate swap at a fixed rate of 7.51% which expired in February 2018, and the 5-year tranche is 50% hedged by an interest-rate swap at a fixed rate of 7.62% which expires in February 2020. A new interest-rate swap was entered into in December 2017 with a forward start date of January 2018 and a maturity date of January 2019 at a fixed rate of 7.59%, which replaces the interest-rate swap which expired in February 2018.

It is the board's policy to economically hedge at least 50% of the company's exposure to interest rate risk.

| | R'000 | |
|---|---|---|
| | 2017 | 2016 |
| Nedbank Limited | - | 227 634 |
| National Housing Finance Corporation SOC Ltd | - | 128 425 |
| Standard Bank | - | 191 417 |
| Standard Bank | 556 518 | - |
| Maturity dates range between January 2020 and January 2022. | | |
| The interest rates are at 3-month JIBAR or prime, plus or less a margin. | | |
| The bonds are secured by properties to the value of R1.219 billion. | | |
| Carrying value of administrative fee on raising of new loan facility capitalised | (1 194) | |
| Total interest-bearing borrowings | 555 324 | 547 476 |
| Less: Short-term portion of interest-bearing borrowings | (52 431) | (216 911) |
| Long-term interest-bearing borrowings | 502 893 | 330 565 |

7 Gearing

Transcend's loan-to-value ("LTV") ratio is 42% (2016: 44%), which represents a reduction from the prior year, but is still outside the targeted long-term range of 30% to 40%. Management is confident that this long-term range is achievable.

8 Summary of financial performance

| | December 2017 | December 2016 |
|---|---|---|
| Dividend per share (cents) | 64.04 | 5.61 |
| Shares in issue | 66 305 662 | 66 305 662 |
| Net asset value per share (cents) | 10.39 | 9.78 |
| Loan-to-value ratio (1) | 41.8% | 44.1% |
| Net property expense ratio (2) | 29.6% | 28.4% |
| Gross property expense ratio (2) | 35.2% | 32.9% |
| Net total expense ratio (2) | 35.6% | 40.0% |
| Gross total expense ratio (2) | 40.7% | 43.7% |

(1) The LTV ratio is calculated by dividing interest-bearing borrowings (net of cash on hand) by the total value of investment property.

(2) For the calculation of net ratios, utility recoveries are excluded from rental revenue, whilst gross ratios include utility recoveries in rental revenue.

Statement of financial position

| | Audited as at 31 December 2017 R'000 | Audited as at 31 December 2016 R'000 |
|---|---|---|
| Assets | | |
| Non-current assets | 1 219 394 | 1 189 400 |
| Investment property | 1 218 640 | 1 189 400 |
| Plant and equipment | 754 | - |
| Current assets | 50 489 | 37 305 |
| Trade and other receivables | 4 441 | 13 804 |
| Cash and cash equivalents | 46 048 | 23 501 |
| Total assets | 1 269 883 | 1 226 705 |
| Equity and liabilities | | |
| Shareholders' interest | 688 829 | 648 800 |
| Stated capital | 632 276 | 632 276 |
| Retained earnings | 56 553 | 16 524 |
| Non-current liabilities | 505 763 | 330 565 |
| Interest-bearing borrowings | 502 893 | 330 565 |
| Derivative liabilities | 2 870 | - |
| Current liabilities | 75 291 | 247 340 |
| Short-term portion of interest-bearing borrowings | 52 431 | 216 911 |
| Trade and other payables | 22 038 | 29 865 |
| Provision for audit fees | 598 | 564 |
| Derivative liabilities | 158 | - |
| Current taxation liability | 66 | - |
| Total equity and liabilities | 1 269 883 | 1 226 705 |

Statement of profit or loss and other comprehensive income

| | Audited for the year ended 31 December 2017 R'000 | Audited for the period ended 31 December 2016 R'000 |
|---|---|---|
| Rental income from investment properties | 144 784 | 33 990 |
| Recoveries of operating costs from tenants | 12 436 | 2 272 |
| Revenue | 157 220 | 36 262 |
| Property operating expenses | (55 297) | (11 941) |
| Net operating income | 101 923 | 24 321 |
| Other operating expenses | (8 705) | (3 916) |
| Operating profit | 93 218 | 20 405 |
| Gain on fair value adjustment of | | |

| | | |
|---|---|---|
| investment property | 29 240 | 11 387 |
| Unrealised loss on revaluation of interest-rate swaps | (3 028) | – |
| Net finance charges | (51 400) | (15 268) |
| Finance income | 1 591 | 171 |
| Finance charges | (52 991) | (15 439) |
| Profit before taxation | 68 030 | 16 524 |
| Taxation expense | (57) | – |
| Profit and total comprehensive income for the period | 67 973 | 16 524 |
| Basic and diluted earnings per share (cents) | 102.51 | 51.70 |

Statement of cash flows

| | Audited for the year ended 31 December 2017 R'000 | Audited for the period ended 31 December 2016 R'000 |
|---|---|---|
| Cash generated by operating activities | 94 655 | 37 030 |
| Finance charges paid | (44 012) | (13 262) |
| Finance income received | 1 591 | 171 |
| Net cash generated from operating activities | 52 234 | 23 939 |
| Capitalisation of transfer and bond costs | – | (13 013) |
| Property and equipment acquired | (856) | – |
| Net cash utilised in investing activities | (856) | (13 013) |
| Interest-bearing borrowings repaid | (887) | (24 425) |
| Dividends paid | (27 944) | – |
| Proceeds from share issue | – | 36 999 |
| Net cash (utilised in)/generated by financing activities | (28 831) | 12 575 |
| Net movement in cash and cash equivalents | 22 547 | 23 501 |
| Cash and cash equivalents at the beginning of the period | 23 501 | – |
| Cash and cash equivalents at the end of the period | 46 048 | 23 501 |
| Cash and cash equivalents consist of: | | |
| Bank and cash balances | 32 219 | 9 972 |
| Tenant deposits | 13 829 | 13 529 |
| | 46 048 | 23 501 |

Statement of changes in equity

| | Stated capital R'000 | Retained earnings R'000 | Total equity R'000 |
|---|---|---|---|
| Balance at 1 July 2016 | – | – | – |
| Transactions with owners | | | |
| Issue of ordinary shares | 639 464 | – | 639 464 |
| Capitalised listing fees | (7 188) | – | (7 188) |
| Total profit and comprehensive income for the period | | | |
| Total profit and comprehensive income for the period | – | 16 524 | 16 524 |
| Balance at 31 December 2016 | 632 276 | 16 524 | 648 800 |
| Transactions with owners | | | |
| Dividends | – | (27 944) | (27 944) |
| Total profit and comprehensive income for the year | – | 67 973 | 67 973 |
| Balance at 31 December 2017 | 632 276 | 56 553 | 688 829 |

Notes

1 Reconciliation of profit for the year to headline earnings

| | Audited for the year ended 31 December 2017 R'000 | Audited for the period ended 31 December 2016 R'000 |
|---|---|---|
| Reconciliation of basic earnings to headline earnings | | |
| Profit for the year attributable to Transcend shareholders | 67 973 | 16 524 |
| Change in fair value of investment properties | (29 240) | (11 387) |
| Headline earnings attributable to Transcend shareholders | 38 733 | 5 137 |
| Actual number of shares in issue | 66 305 662 | 66 305 662 |
| Weighted average number of shares in issue | 66 305 662 | 31 962 195 |
| Basic and diluted earnings per share (cents) | 102.51 | 51.70 |
| Headline and diluted headline earnings per share (cents) | 58.42 | 16.07 |

2 Sectoral split

| Based on: | GLA | Book value |
|---|---|---|
| Residential | 100% | 100% |

3 Lease expiry profile

| Based on: | GLA (%) | Rental revenue |
|---|---|---|
| Vacancy | 7.4% | 6.8% |
| Monthly | 58.7% | 59.6% |
| 30 June 2018 | 19.2% | 19.0% |
| 31 December 2018 | 14.6% | 14.5% |
| 31 December 2019 | 0.1% | 0.1% |
| | 100.0% | 100.0% |

4 Related parties and related party transactions

Transcend 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, South African Workforce Housing Fund (Cayman) II Ltd and South African Workforce Housing Fund (SA) II.

The relationship between the Partnership and International Housing Solutions (RF) (Pty) Ltd ("IHS (RF)(Pty) Ltd") is governed by a signed investment advisory agreement.

Transcend is externally managed by International Housing Solutions Asset

Management (Pty) Ltd ("IHS AM"), 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 IHS AM and became effective 1 October 2016. IHS AM charged Transcend asset management fees of R4.466 million (2016: R1.116 million) during the year in accordance with the asset management agreement.

The property management function of the Company is outsourced on market related terms to International Housing Solutions Property Management (Pty) Ltd ("IHS PM"), a private company registered and incorporated in accordance with the laws of South Africa. A property management agreement was entered into by Transcend and IHS PM on 16 October 2016. IHS PM charged Transcend property management fees of R11.116 million (2016: R2.515 million) during the year in accordance with the property management agreement.

5 Summarised segmental analysis
Transcend has thirteen 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.

For the year ended 31 December 2017
R’000

| | 67 on 7th | Acacia Place | Alpine Mews |
|---|---|---|---|
| Revenue | 10 784 | 18 519 | 5 013 |
| Property operating expenses | (3 289) | (7 293) | (1 748) |
| Profit and total comprehensive income for the year | 13 154 | 4 863 | 7 312 |
| Total assets | 98 602 | 130 685 | 36 653 |
| Total interest-bearing borrowings | – | – | – |

| | Ekhaya Fleurhof | Ekhaya Jabulani | Jackalberry Close |
|---|---|---|---|
| Revenue | 8 760 | 12 471 | 12 320 |
| Property operating expenses | (2 195) | (4 567) | (3 593) |
| Profit and total comprehensive income for the year | 11 047 | 9 825 | 8 575 |
| Total assets | 70 248 | 91 630 | 113 727 |
| Total interest-bearing borrowings | – | – | – |

| | Kent Road | Kosmosdal | Parklands |
|---|---|---|---|
| Revenue | 4 498 | 17 033 | 13 187 |
| Property operating expenses | (1 509) | (5 525) | (5 634) |
| Profit and total comprehensive income for the year | 4 294 | 14 037 | 11 635 |
| Total assets | 35 508 | 140 151 | 99 918 |
| Total interest-bearing borrowings | – | – | – |

| | Village Seven, Stone Arch Estate | Terenure Estate | Theresa Park Estates |
|---|---|---|---|
| Revenue | 8 006 | 28 151 | 12 172 |
| Property operating expenses | (3 495) | (9 350) | (4 765) |
| Profit and total comprehensive income for the year | 4 678 | 22 850 | 12 554 |
| Total assets | 55 870 | 216 548 | 99 337 |
| Total interest-bearing borrowings | – | – | – |

| | Tradewinds | Reconciling items | Total |
|---|---|---|---|
| Revenue | 6 306 | – | 157 220 |
| Property operating expenses | (2 334) | – | (55 297) |
| Profit and total comprehensive income for the year | 5 263 | (62 114) | 67 973 |
| Total assets | 46 783 | 34 223 | 1 269 883 |
| Total interest-bearing borrowings | – | 555 324 | 555 324 |

For the period ended 31 December 2016
R’000

| | 67 on 7th | Acacia Place | Alpine Mews |
|---|---|---|---|
| Revenue | 2 540 | 3 401 | 1 050 |
| Property operating expenses | (679) | (1 409) | (386) |
| Profit and total comprehensive income for the period | 781 | (215) | 355 |
| Total assets | 91 800 | 133 800 | 32 100 |
| Total interest-bearing borrowings | 50 895 | 99 876 | 14 273 |

| | Ekhaya Fleurhof | Ekhaya Jabulani | Jackalberry Close |
|---|---|---|---|
| Revenue | 2 039 | 3 020 | 3 016 |
| Property operating expenses | (479) | (1 188) | (814) |
| Profit and total comprehensive income for the period | 1 979 | 3 556 | 1 512 |
| Total assets | 65 000 | 88 600 | 112 400 |
| Total interest-bearing borrowings | 31 403 | 45 471 | 23 156 |

| | Kent Road | Kosmosdal | Parklands |
|---|---|---|---|
| Revenue | 1 079 | 4 169 | 3 019 |
| Property operating expenses | (348) | (1 166) | (985) |
| Profit and total comprehensive income for the period | 716 | 166 | 5 242 |
| Total assets | 33 800 | 135 900 | 93 500 |
| Total interest-bearing borrowings | 14 194 | 57 354 | 37 278 |

| | Village Seven, Stone Arch Estate | Terenure Estate | Theresa Park Estates |
|---|---|---|---|
| Theresa Park Estates | | | |
| Revenue | 1 866 | 6 786 | 2 790 |
| Property operating expenses | (770) | (2 083) | (1 097) |
| Profit and total comprehensive income for the period | 1 719 | 8 624 | (4 421) |
| Total assets | 54 900 | 210 000 | 92 850 |
| Total interest-bearing borrowings | 26 837 | 76 862 | 49 609 |

| | Tradewinds | Reconciling items | Total |
|---|---|---|---|
| Revenue | 1 485 | – | 36 260 |
| Property operating expenses | (536) | – | (11 940) |
| Profit and total comprehensive | | | |

| | | | |
|---|---|---|---|
| income for the period | 255 | (3 745) | 16 524 |
| Total assets | 44 750 | – | 1 189 400 |
| Total interest-bearing borrowings | 20 268 | – | 547 476 |

Reconciliation of profit for the year to distributable earnings

| | For the year ended 31 December 2017 R'000 | For the period ended 31 December 2016 R'000 |
|---|---|---|
| Profit for the year attributable to Transcend shareholders | 67 973 | 16 524 |
| Unrealised loss on interest-rate swaps | 3 028 | – |
| Change in fair value of investment properties | (29 240) | (11 387) |
| Listing fee expensed | – | 1 752 |
| Surplus working capital available for distribution | 703 | 1 290 |
| Clean-out dividend (1) | – | (4 461) |
| Distributable income for the year (2) | 42 464 | 3 718 |
| Distribution per share (cents) | 64.04 | 5.61 |
| Interim | 29.81 | – |
| Final | 34.23 | 5.61 |

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

(2) The adjustments made to profit to derive the amount available for distribution to shareholders have not been audited.

6 Financial instrument and investment property fair value disclosures

Categories of financial instruments
The Company's principal financial liabilities are borrowings, classified as other financial liabilities, and derivative financial liabilities, classified at fair value through profit or loss. The main purpose of the Company's 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, classified as loans and receivables.

Fair value hierarchy for financial instruments and investment property
IFRS 13 requires that an entity discloses for each class of financial instruments and investment property measured at fair value, the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety.

When measuring the fair value of an asset or liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on inputs used in the valuation techniques as follows:
* Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
* Level 2: inputs other than quoted prices included in 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

Figures in R'000s

| | Fair value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| 2017 | | | | |
| Assets | | | | |
| Investment properties | 1 218 640 | – | – | 1 218 640 |
| Liabilities | | | | |
| Derivative liabilities | 3 028 | – | 3 028 | – |

There have been no transfers between level 1, level 2 and level 3 during the year under review.

The carrying amounts of loans and receivables, and other financial liabilities reasonably approximate their fair value.

Details of valuation techniques

Investment properties
In line with the Company's valuation policy, independent valuations are performed annually for at least one third of the portfolio. However, due to the size of the current portfolio, management's practice for the past 2 financial years has been to appoint independent valuers to value the entire portfolio. Investment property is categorised as level 3 in terms of the fair value hierarchy.

The properties were valued as at 31 December 2017 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. 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.

Key assumptions used to determine the value of the properties: Expected net operating income:
The average rental income ranges from R4 259 to R6 530 (2016: 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% (2016: 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 2.5% to 4% (2016: 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. The

lower growth rates are reflective of tough current economic conditions.

Vacancy factor
In order to apply a conservative approach, 2.5% to 13.25% (2016: 3% to 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, with the exception of Acacia Place which has a vacancy of 24% at 31 December 2017 due to a bulk lease which was terminated.

All of the Company's investment properties were valued at 31 December 2017 by an external registered valuer. 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 on 6 March 2018. For all investment properties, their current use equates to the highest and best use.

Derivative liabilities – Interest-rate swaps
Transcend uses interest-rate swaps to protect the Company against adverse movements in interest rates. These interest-rate swaps are measured at fair value through profit or loss, are classified as derivative financial liabilities at fair value through profit of loss and are categorised in terms of the Company's fair value hierarchy as level 2.

The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. Estimates of the future floating-rate cash flows are based on quoted swap rates, future prices and interbank borrowing rates. Estimated cash flows are discounted using a yield curve constructed from similiar sources, which reflects the relevant benchmark interbank rate used by market participants for this purpose when pricing interest rate swaps. The fair value estimate is subject to a credit risk adjustment that reflects the credit risk of the company and of the counterparty. This is calculated based on credit spreads derived from current credit default swap or bond prices.

As at 31 December 2017, the derivative financial liabilities relating to interest-rate swaps were fair valued, resulting in an increase of R3.03 million in the liability and a corresponding fair value movement of R3.03 million (2016: Rnil) in profit or loss.

7 Prospects
After the significant political events of the past 3 months, South Africa is entering what many believe to be a moderately positive era of growth. Management supports this view and therefore expects the current portfolio to perform in line with, if not better than, the past 12 months. This, coupled with natural rental escalations, the effects of gearing and pro-active cost management, should result in increased distributions for the 2018 year which are slightly higher than expected inflation. Management is therefore forecasting distribution growth of between 6-8% from 2017 to 2018.

This forecast is based on the assumption that current market and trading conditions prevail for the current stabilised portfolio. This forecast has not been reviewed or reported on by the independent external auditors. Transcend's use of distribution per share as a relevant measure of financial performance remains unchanged from the Listing Prospectus.

8 Significant non-cash transactions
In terms of the settlement agreeement, Standard Bank settled the debt facilities with the various debt providers to the value of R555.98 million. An amount of R555.1 million of new debt was raised during the 2017 financial year. The net amount is therefore R0.89 million which was raised. This is disclosed in the statement of cash flows. Please refer to note 6 for more detail regarding the facilities in place as at 31 December 2017.

9 Subsequent events
In line with IAS10 Events after the reporting date, the declaration of the final dividend as disclosed in Note 11 Payment of final dividend, occurred after the end of the reporting period, resulting in a non-adjusting event that is not recognised in the financial statements.

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.

10 Liquidity
As at 31 December 2017, the Company had a positive net asset value. Its current liabilities exceed its current assets by R24.8 million (2016: R210 million) as a result of payments on the long-term interest-bearing borrowings becoming due and payable in the next 12 months. These payments are due quarterly, and the Company has satisfied itself that it will have sufficient cash to settle these liabilities as they become due and payable each quarter. The Company has performed a cashflow forecast for the next 12 months, and the directors are satisfied that the Company will be liquid and solvent after the declaration of the dividend.

11 Payment of final dividend
The board has approved and notice is hereby given of a dividend of 34.23125 cents per share for the six months ended 31 December 2017. This brings the full year distribution to 64.04000 cents per share (2016: 5.60803 cents per share) for the year ended 31 December 2017.

In accordance with Transcend's status as a REIT, shareholders are advised that the dividend meets the requirements of a "qualifying distribution" for the purposes of section 25BB of the Income Tax Act, No. 58 of 1962 ("Income Tax Act"). The dividend on the shares will be deemed to be a dividend, for South African tax purposes, in terms of section 25BB of the Income Tax Act.

The dividend received by or accrued to South African tax residents must be included in the gross income of such shareholders and will not be exempt from income tax (in terms of the exclusion to the general dividend exemption, contained in paragraph (aa) of section 10(1)(k)(i) of the Income Tax Act) because it is a dividend distributed by a REIT. This dividend is, however, exempt from dividend withholding tax in the hands of South African tax resident shareholders, provided that the South African resident shareholders provide the following forms to their Central Securities Depository Participant ("CSDP") or broker, as the case may be, in respect of uncertificated shares, or the Company, in respect of certificated shares:

a) a declaration that the dividend is exempt from dividends tax; and
b) a written undertaking to inform the CSDP, broker or the Company, as the case may be, should the circumstances affecting the exemption change or the beneficial owner cease to be the beneficial owner,

both in the form prescribed by the Commissioner for the South African Revenue Service. Shareholders are advised to contact their CSDP, broker or the Company, as the case may be, to arrange for the abovementioned documents to be submitted prior to payment of the dividend, if such documents have not already been submitted.

Dividends received by non-resident shareholders will not be taxable as income and instead will be treated as an ordinary dividend which is exempt from income tax in terms of the general dividend exemption in section 10(1)(k)(i) of the Income Tax Act, (unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation ("DTA") between South Africa and the country of residence of the shareholder). Assuming dividend withholding tax will be withheld at a rate of 20%, the net dividend amount due to non-resident shareholders is 27.38500 cents per share. A reduced dividend withholding rate in terms of the applicable DTA may only be relied on if the non-resident shareholder has provided the following forms to their CSDP or broker, as the case may be, in respect of uncertificated shares, or the Company, in respect of certificated shares:

a) a declaration that the dividend is subject to a reduced rate as a result of the application of a DTA; and
b) a written undertaking to inform their CSDP, broker or the Company, as the case may be, should the circumstances affecting the reduced rate change or the beneficial owner cease to be the beneficial owner,

both in the form prescribed by the Commissioner for the South African Revenue Service. Non-resident shareholders are advised to contact their CSDP, broker or the Company, as the case may be, to arrange for the abovementioned documents to be submitted prior to payment of the dividend if such documents have not already been submitted, if applicable.

The dividend is payable to Transcend shareholders in accordance with the timetable set out below:

| | |
|---|---|
| Last date to trade cum dividend | Tuesday, 3 April 2018 |
| Shares trade ex dividend | Wednesday, 4 April 2018 |
| Record date | Friday, 6 April 2018 |
| Payment date | Monday, 9 April 2018 |

Share certificates may not be dematerialised or rematerialised between Wednesday, 4 April 2018 and Friday, 6 April 2018, both days inclusive.

In respect of dematerialised shareholders, the dividend will be transferred to CSDP accounts/broker accounts on Monday, 9 April 2018. Certificated shareholders' dividend payments will be deposited on or about Monday, 9 April 2018.

By order of the board

| | |
|---|---|
| Robert Nicolaas Wesselo | David Peter Lange |
| Chief Executive Officer | Chief Financial Officer |

Johannesburg
8 March 2018

Registered office: 54 Peter Place, Block C, Peter Place Office Park, Bryanston, 2191

Transfer secretaries: Link Market Services South Africa Proprietary Limited, 13th Floor, 19 Ameshoff Street, Braamfontein, 2001, PO Box 4844, Johannesburg, 2000

Sponsor: Java Capital

Company secretary: Karen Waldeck-Kruger

Directors: Robert Reinhardt Emslie* (Chairperson); Robert Nicolaas Wesselo (Chief executive officer); David Peter Lange** (Chief financial officer); Myles Kritzinger *** (Chief financial officer); Solly Mboweni (Chief operating officer); Cathal Padraig Conaty; Faith Nondumiso Khanyile* ; Michael Simpson Aitken*; Michael Louis Falcone

* Independent non-executive director
** David Peter Lange resigned as chief financial officer and executive director of the Company effective 8 March 2018.
*** Myles Kritzinger was appointed as chief financial officer and executive director of the Company effective 9 March 2018.