TRANSCEND
Residential Property Fund

Integrated Annual Report

2017

Contents

About this report

THIS INTEGRATED ANNUAL REPORT PRESENTS THE OPERATIONAL AND FINANCIAL PERFORMANCE OF TRANSCEND RESIDENTIAL PROPERTY FUND LIMITED ("TRANSCEND" OR "THE COMPANY") FOR THE YEAR FROM 1 JANUARY 2017 TO 31 DECEMBER 2017.

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 IV Report on Corporate Governance for South Africa 2016 ("King IV");
- 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 47 to 86 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.

Forward-looking statements

This integrated annual report may contain certain forward-looking statements concerning Transcend's operations and future financial performance. While these statements reflect best estimates of management and its Board of Directors ("the Board"), 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 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 54 to 86 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 annual report for the 2017 financial year. The Board has accordingly applied its judgment and in its opinion this integrated annual report addresses all material matters, and offers a holistic view of the performance of Transcend. The Board is working towards full compliance with the International Integrated Reporting Council's International ‹IR› Framework.

The Board authorised the integrated annual report for publication on 18 April 2018.

Robert Emslie
Chairman

Company profile

Transcend listed on the Alternative Exchange ("AltX") of the JSE Limited ("JSE") 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 company's business activities are primarily concerned with acquiring and managing income-generating residential properties — focusing 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 in Gauteng, as well as the Western Cape and Mpumalanga. These properties were acquired effective 1 October 2016.

Unlike conventional inner-city residential housing, the company's properties are predominantly two- and three-storey walk-up apartments, strategically located in desirable neighbourhoods, and often equipped with lifestyle-enhancing amenities. As most properties are under six years old, they tend to have a high underlying capital value. As a result, performance is 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.

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

In South Africa, Transcend's strategy is to invest in the affordable housing market — one of the few market segments where demand exceeds supply. It is anticipated that this undersupply will continue well into the future, due to the increasing trend towards urbanisation in South Africa. It therefore follows that Transcend 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.

13
PROPERTIES

2472
HOUSING UNITS

1.2
PROPERTY PORTFOLIO VALUE (R'bn)

3
PROVINCES

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 2 100 units with a total value in the order of R1.55 billion, 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 and broader 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, while also providing investors with the security of well-located, quality underlying capital assets which are expected to appreciate in value over time. Residential 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
- Effective cost management

2017 performance overview

NAV per share (cents)

2017 ACTUAL

10.39

2017 target 9.38

COST-TO-INCOME ratio (%)

2017 ACTUAL

29.6

2017 target 31.71

2018 target 29.6

DIVIDEND per share (cents)

2017 ACTUAL

64.04

2017 target 62.80

2018 target 6% to 8% growth

LOAN-TO-VALUE (%)

2017 ACTUAL

41.8

2017 target 41.8

OCCUPANCY average (%)

2017 ACTUAL

92.7

2017 target 94.7

2018 target 96.4

PROFIT (Rm)

2017 ACTUAL

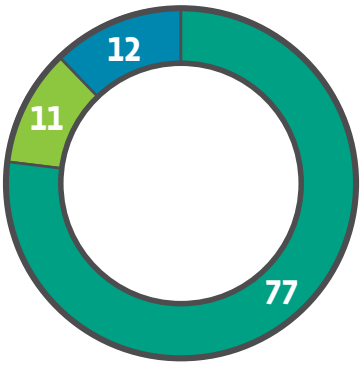
41.7

Excluding fair value gain on investment property of 29.24 and an unrealised loss on revaluation of interest-rate swaps of 3.03

2017 target 41.45

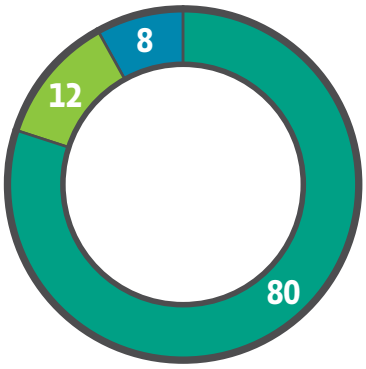
GEOGRAPHICAL PROFILE BY REVENUE (%)

GAUTENG WESTERN CAPE MPUMALANGA



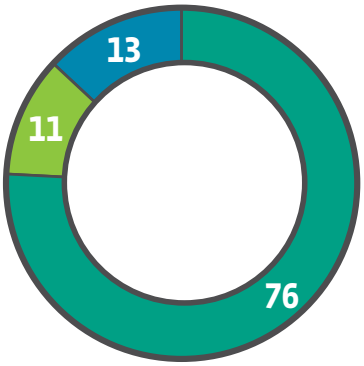
GEOGRAPHICAL PROFILE BY GROSS LETTABLE AREA (GLA) (%)

GAUTENG WESTERN CAPE MPUMALANGA



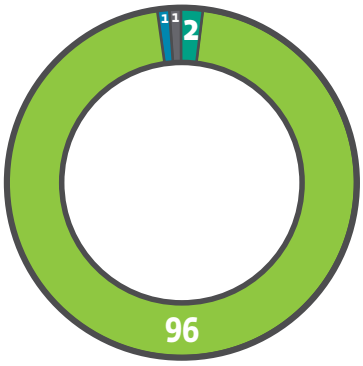
GEOGRAPHICAL PROFILE BY NUMBER OF UNITS (%)

GAUTENG WESTERN CAPE MPUMALANGA



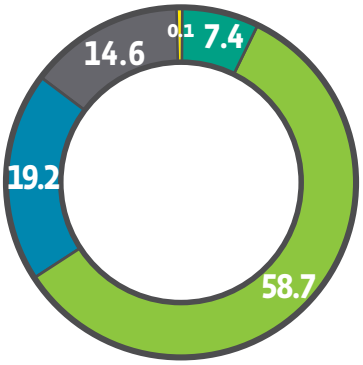
UNIT PROFILE (%)

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



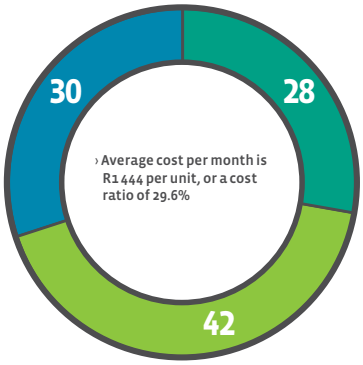
LEASE EXPIRY PROFILE (%)

VACANCY MONTHLY PRIOR TO 30.06.2018
PRIOR TO 31.12.2018 PRIOR TO 31.12.2019

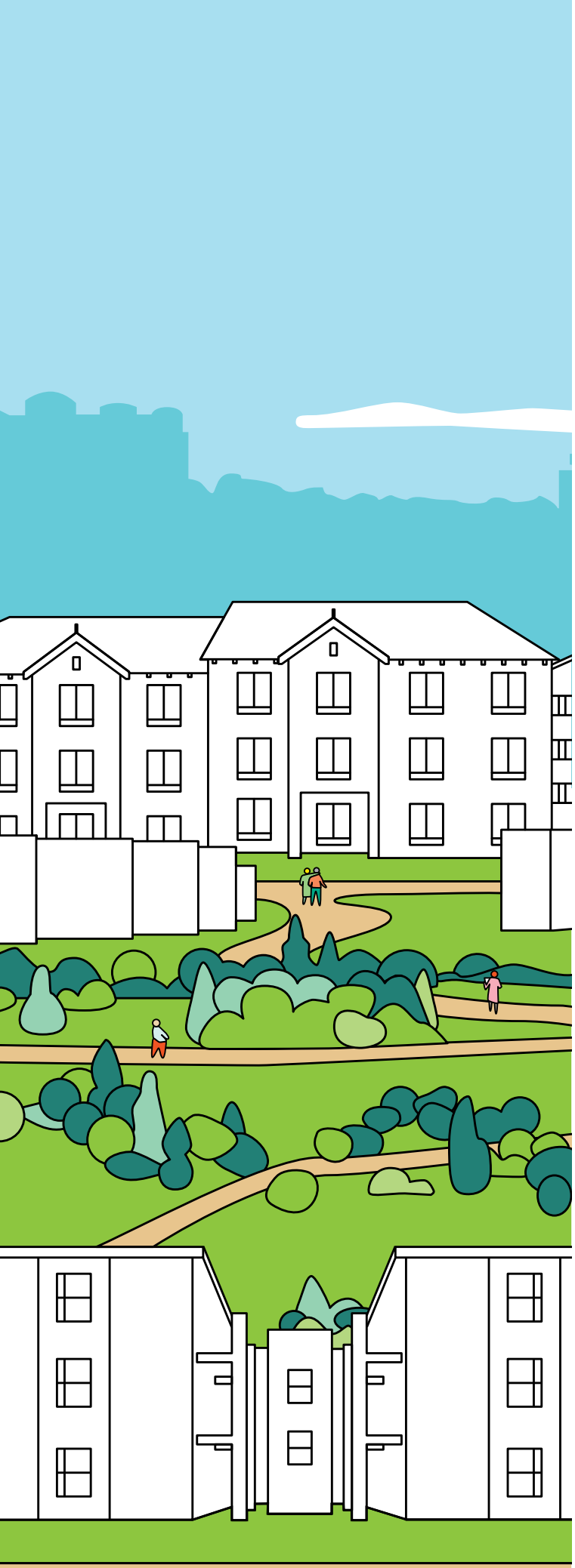


AVERAGE MONTHLY PROPERTY EXPENSES (%)

UTILITIES OPERATIONAL ADMIN



› Average cost per month is R1 444 per unit, or a cost ratio of 29.6%



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").

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 AM 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").

IHS highlights

27 700

UNITS/STANDS COMPLETED/UNDER CONSTRUCTION SINCE 2007

18 700

UNITS/STANDS SOLD SINCE 2007

5.8

INVESTOR COMMITMENTS (Rbn)

400 000 TO 800 000

UNIT PRICE RANGES (R)

63

INVESTMENTS IN REAL ESTATE PROJECTS

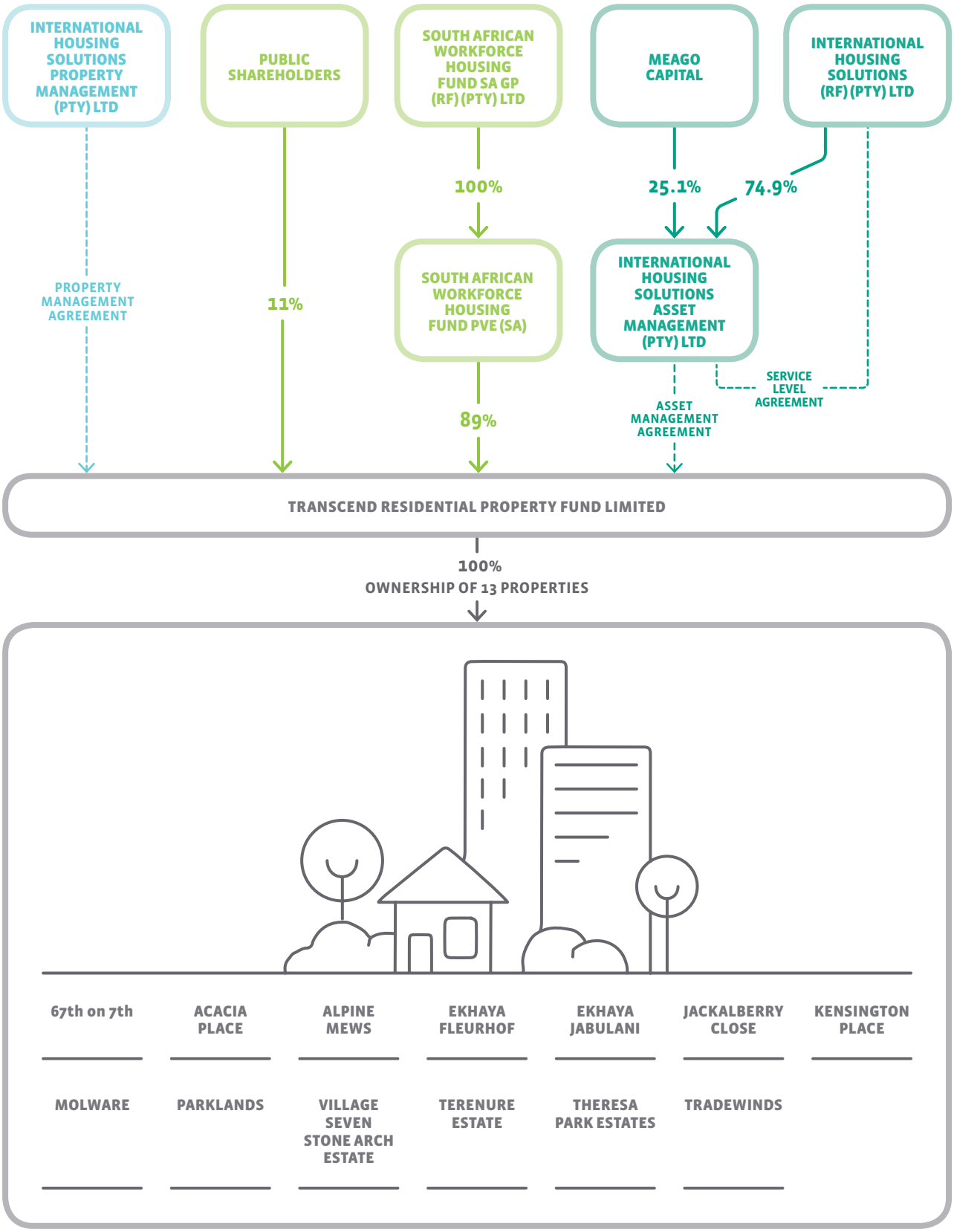
7 020

UNITS IN RENTAL PORTFOLIO

TARGETING LOWER TO MIDDLE-INCOME AFFORDABLE MARKET

PROPERTIES LOCATED IN FIVE PROVINCES IN SOUTH AFRICA

Group structure



Strategic objectives

Transcend's strategic objectives articulate its ultimate goals, and chart a course for the ongoing success and sustainability of the business. The company creates stakeholder value by effectively and efficiently deploying its resources and executing its business activities with excellence.

The degree to which the company achieves its main objectives during each year, determines the quality of its performance, which is measured against the targets set by management. Transcend strives to achieve three main strategic objectives, which are described below.

STRATEGIC OBJECTIVE	RESULT	2017 PERFORMANCE
Leveraging residential fund expertise As a key driver of the institutional residential rental market in South Africa, Transcend is one of the few specialist REITs with a portfolio consisting of exclusively residential properties. To date, the company has focused on well located, medium density secure estates, with complementary lifestyle amenities.	Achieved	In the year under review, Transcend delivered a stable portfolio performance by leveraging off partnerships with strategic service providers, maintaining rental growth, low vacancies and arrears, and managing costs. The optimal deployment of IHS AM and IHS PM resources positively impacted the company's intellectual and human capital, as well as its manufactured capital.
Dividend growth The company aims to achieve consistent growth in dividends by improving the performance of the portfolio with rental escalations and specialist, hands-on asset and property management.	Achieved	The actual dividend for the current reporting period under review exceeded management's forecast target by 2%. The effects of this performance on financial, human and intellectual capitals are seen in sustainable income growth and achieving a net operating income of R41.77 million (this excludes a R29.24 million fair value gain on investment properties and an unrealised loss on revaluation of interest-rate swaps of R3.03 million). Transcend maintained a stable capital structure year-on-year and met its debt funding commitments.
Harnessing a defensive market segment Residential REITs are renowned for being a defensive asset class, protected against inflation over the long term, and experiencing less volatility than other sectors of real estate. Urbanisation in South Africa is a growing trend, as the demand for quality, affordable rental properties continues to outstrip supply. The sustainability of Transcend's income-generating ability is therefore somewhat safeguarded by the high demand market.	Achieved	Transcend delivered greater than inflationary yields during the year, with the company's dividend yield of 6.16% beating inflation of 5.40%. The effect of this performance on Transcend's financial and social capital is positive, boosting stakeholder relationships through improved investor confidence and shareholder support. The company operated its high-demand, well-located residential properties with an occupancy level of 93% across the portfolio. The effect of this on Transcend's manufactured and social capital is a diversified property portfolio that attracts a quality tenant profile to maximise occupancy and rentals. Transcend's underlying property appreciated in value, increasing by R29.24 million year-on-year, which positively impacted the company's financial and manufactured capitals.

Business model

INPUTS

FINANCIAL CAPITAL

- We are a specialist REIT, investing in a defensive asset class that protects shareholders against inflation and market volatility
- Monthly rentals via portfolio performance and rental growth
- Profit for distribution and consistent dividend growth
- Capital investment into our properties
- Extensive network of investors and access to capital
- Balanced capital structure
- Debt funding

MANUFACTURED CAPITAL

- The physical bricks and mortar of our portfolio of properties
- Secure, quality lifestyle estates
- Well located, infill development near places of work and amenities
- Continuous improvements to our properties
- Metering of properties to recover utilities and manage utility costs

BUSINESS ACTIVITIES

- Effective and efficient management of the portfolio with good rental growth, low vacancies and arrears, and well-managed costs
- Identifying and acquiring new properties into the portfolio that fit with our investment strategy
- Maintenance and ongoing improvement of our existing properties
- Ongoing staff development and talent management
- Regularly engaging with our tenants, and resolving tenant issues
- Leveraging off relationships with strategically-positioned service providers and business partners
- Ongoing risk management
- Continuous stakeholder engagement
- Future environmental and business sustainability through product innovation for energy and water-efficient buildings and implementation of our corporate social investment ("CSI") and environmental, social and governance ("ESG") policies

OUTCOMES

FINANCIAL CAPITAL

- Consolidating the performance of the existing portfolio with a resilient asset class
- Surpassing target forecasts for FY2017
- Net operating income of R41.7 million (excluding a fair value gain on investment property of R29.24 million and an unrealised loss on revaluation of interest-rate swaps of R3.03 million
- Dividend distribution of 64.04cps
- Meeting our debt funding obligations and maintaining a stable capital structure

MANUFACTURED CAPITAL

- A portfolio with a competitive advantage that allows market flexibility and geographical diversification
- Affordable, well-located and lifestyle-enhancing residential housing
- Owning high-demand properties that have low vacancies and arrears
- Reduced utility costs for tenants with a positive impact on their disposable income
- Year-on-year growth in the value of our property portfolio

HUMAN AND INTELLECTUAL CAPITAL

- Extensive market and industry network
- Access to experienced and quality service providers:
  - IHS Asset Management
  - IHS Property Management
- Seeing our people as strategic assets
- Strong corporate governance framework

SOCIAL AND RELATIONSHIP CAPITAL

- Active stakeholder management
- Ethics and human rights
- Supporting sustainability
- Awareness of our corporate social impact and environmental responsibilities

OUTPUTS

- Delivering quality affordable housing to lower- to middle-income households
- Optimising the portfolio's performance
- Growing the existing asset base with quality properties that fit the portfolio
- Attracting and retaining quality personnel who are specialists in residential property and loyal to the company
- Creating stakeholder value
- Uplifting local communities
- Being an environmentally-conscious company

HUMAN AND INTELLECTUAL CAPITAL

- Efficient asset and property management to maximise portfolio performance
- Growing our human capital base and market knowledge
- Access to a team that is agile and responsive to changing economic and market demands
- Leading the way as residential property experts
- Developing our strategic relationships with key players in the affordable housing market
- Enhancing our brand and reputation in the market

SOCIAL AND RELATIONSHIP CAPITAL

- Improved community relations
- We are an ethical business, respecting the rights of our employees and the communities where we operate
- Stakeholder confidence by proactively prioritising their needs and aligning our value proposition with their requirements
- Understanding our tenant-base and their concerns
- Reducing socio-economic pressures by delivering well-located homes to an underserviced market
- Enhancing the sustainability of the environment and our business through efficient utility management

Managing risk

Our policy and approach

With the assistance of the executive directors, the Audit and Risk Committee ("the committee") monitors and assesses the significant risks that the company is exposed to on an ongoing basis. It also ensures that risks are taken within a reasonable appetite and that sufficient safeguards are put in place to mitigate such risks. The committee has overseen the continuous development of a risk policy and risk management plan as reviewed and approved from time-to-time by the Board.

This risk management policy is in accordance with industry best 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.

The committee monitors the implementation of this policy and plan which takes place by means of risk management systems and processes, and has widely disseminated them throughout the company and integrated them into the day-to-day activities of the company. The risk management framework and methodologies that have been implemented have increased the possibility of identifying, analysing and responding to risks accordingly.

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

- Investment and property related risks, including loss of income, changes in property values and property damage risk;
- Business continuity risk, including IT and human capital risks;
- Internal control risks, including fraud and error as it relates to financial reporting;
- Treasury, interest rate and tax risk; and
- Regulatory, legal and compliance risk.

Key risks to the business which have been identified, are included in a summarised Risk Matrix below, which identifies and prioritises risk factors and the impact thereof (occurrence), assesses the degree to which they impact the business, and indicates the mitigating response by the company. This matrix has been assessed by the committee and presented to the Board for its consideration.

RISK MATRIX

RISK	LEVEL	MITIGATING FACTOR
Investments: Properties are acquired which do not fit investment criteria.	Low	The business has a clear investment strategy. The Investment Committee approves all property acquisitions after a detailed due diligence is performed. All decisions made by the Investment Committee must be approved by a majority vote.
Property damage or destruction: Damage to properties by fire or other causes could result in a loss of income. Properties acquired are not insured.	Low	All properties are insured with A-rated insurers at replacement value, and for loss of income as well as personal liability. The policy provides a window, which covers new acquisitions until the date on which properties have been transferred to the company.
Property values: The value of properties reduces as a result of deterioration of income or a rise in capitalisation rates due to forces outside of the company's control.	Moderate	A diversified portfolio, strong market demand, and an intense focus on asset and property management ensures the protection of income and control of expenses. Rising capitalisation rates as a result of unforeseen market forces would impact the property market as a whole and would not necessarily be specific to Transcend.
Loss of income: Increased vacancies, inability to increase rentals, lease expiries (concentration) and bad debts could all have a negative impact on the company's ability to meets its forecast distributions and growth.	Low to moderate	A diversified portfolio, established marketing policies and incentives, strict tenant vetting criteria, a 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, with a strong tenant profile. Property performance is actively managed on a monthly basis to ensure that we are quick to react to any losses. Renewals are actively canvassed prior to expiry.

RISK MATRIX

RISK	LEVEL	MITIGATING FACTOR
Municipal and other services: Material increase in electricity costs which could place downward pressure on rentals. Drought resulting in a water crisis and insufficient availability of services from council which could lead to a disruption of supply.	Low to moderate	Ongoing monitoring of utility costs and recoveries through accurate metering systems to ensure that costs are accurately recorded and recovered where appropriate. Investigation of use of generators, grey water harvesting, boreholes and other resource-efficient measures, where appropriate, to ensure the sustainability of utilities supply.
Operational risk: Loss of earnings due to poor processes and controls.	Low	Monthly management meetings are held with property managers to discuss the performance of the portfolio. There is regular feedback regarding internal audits conducted by the property managers, as well as the adoption and monitoring by management of appropriate risk management practices. The asset managers visit sites regularly to identify and resolve potential operational issues.
Business continuity: Loss of company data.	Moderate	A disaster recovery plan is in place to ensure the recoverability of data and company information. This plan is tested at least once a year to ensure that it is effective.
IT controls: Unauthorised users gain access to the systems, failure of the systems or information is compromised.	Low to moderate	IHS AM and IHS PM regularly audit their IT systems to ensure compliance and the integrity of controls and data. Frequent updates are made to ensure that all systems remain up-to-date and a thorough disaster recovery plan is in place.
Fraud and error: Errors are made or fraud committed either by an employee of the company or its property and asset managers.	Low to moderate	Internal controls, schedules of payments and cash balances are tested and reviewed regularly by management. Segregation of duties is also ensured through the separation of key functions of the business.
Human capital risk: Due to the scarcity of residential asset management skills in South Africa and the growing institutional market, the demand for these specialist skills is increasing.	Moderate	Both financial and non-financial benefits are used to attract and retain skilled and experienced resources and key personnel.
Interest rate risk: 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 one-year and three-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.
Regulatory compliance: Possible changes to existing legislation and non-compliance with regulatory requirements could result in reputational damage and financial loss.	Low	Board members endeavour to comply with the highest professional standards. There is ongoing consultation with professional advisors to ensure compliance and address any changes to the applicable legislation. Adequate insurance is in place to cover key insurance risks.

Stakeholder engagement

Transcend develops strong and lasting relationships with its key stakeholders, through various methods of engagement with each stakeholder group.

The company ensures that it is accessible to its tenants by using simple, effective methods of communication. This includes the increased use of smartphone applications that benefit both Transcend and its tenants.

Transcend meets with its shareholders periodically, engaging them to discuss performance and strategy. The company aims to grow its investor base to migrate its listing from the AltX to the JSE's Main Board and access a broader shareholder spread.

The company's ongoing interaction with its financiers strengthens the relationships it has built over time. By doing so, Transcend can retain access to the financial services it needs to do business in the listed property market.

IHS has operated for over 10 years and performs the respective management services for Transcend via its IHS Asset Management and IHS Property Management companies. This relationship is at the centre of the company's daily business activities and ongoing success.

STAKEHOLDER	METHOD OF ENGAGEMENT
Employees (including service providers)	Daily, face-to-face interaction between staff and management, and indirectly/electronically via e-mail and social media applications. Staff performance appraisals are carried out at least annually. Other methods of engagement include ongoing staff training and development.
Financiers	Monthly contact between the company and its financiers, with regular meetings to assess both parties' respective needs, requirements and contractual obligations. Financiers have access to the company's website, integrated annual report, SENS announcements and press releases.
Shareholders, analysts and investors	Transparent disclosure of Transcend's annual and interim financial results. Post-results discussions held between the company and its shareholders. Roadshows to shareholders and strategic investors to communicate performance and business strategy. Frequent, direct contact with investors, with access to the company's website, SENS announcements and press releases.
Industry and professional bodies	The company is an active participant in the property industry, featuring at national and international conferences, and is a member of key industry bodies.
Tenants	Transcend's dedicated building managers stay onsite to be most effective. Tenants are able to contact them directly, or via the company call centre. All queries are systematically logged, attended to and followed up on. Property managers and asset managers perform site visits and resolve any tenant queries.
Suppliers and property managers	Service level agreements are in place with security and maintenance providers, and regular meetings ensure quality service is provided consistently.
Communities	The company is involved in body corporates where it has joint ownership. Monthly trustee meetings and annual AGMs are held for all properties in the portfolio for relevant parties to attend and participate.
Government and public institutions	Interactions between Transcend and local government take place regarding property level requirements such as municipal rates.

Material issues

TRANSCEND'S MATERIAL ISSUES ARE ITEMS OR MATTERS, BOTH STRATEGIC AND RISK-RELATED, WHICH ARE SEEN TO BE MATERIAL TO STAKEHOLDERS AND THE COMPANY.

Management reports on items it believes are of importance to stakeholders, and those that have been identified and assessed as having a material effect on the short-, medium- and long-term value of Transcend.

The company also considers matters that stakeholders wish to be reported on during the preparation of this integrated annual report. This process takes place simultaneously and continuously to ensure that all inputs received are converted into strategy and implemented at an operational level.

Matters of strategic importance to the business include, but are not limited to the following:

- People
- Compliance and governance
- Regulatory
- Operational
- Financial
- Reputational

The items above and others are included on page 13 of this report, in the company's risk matrix, which lists the significant categories of risk, as identified under the guidance of the Audit and Risk Committee. The risk matrix provides a framework to illustrate how Transcend's risk factors are identified, the degree to which they impact the business, and the mitigating responses by the company.

Material issues are also forward looking, and management is committed to proactively identifying items that could either be installed or avoided by the business, and be a response to sustainability, profitability, opportunities and challenges. An example of this is the impact that the rising costs of utilities has on the affordability of tenants, the sustainability of the environment and the performance of the portfolio.

Prepaid utilities metering has become increasingly pervasive in recent years, with prepaid water gaining traction in the market among tenants and landlords alike. Resource-efficient initiatives, such as the IFC Green Buildings Excellence in Design for Greater Efficiencies ("EDGE"), can save tenants up to 20% of their utility consumption. The cost savings and environmental benefits of EDGE complement a market trend that is likely to continue for the foreseeable future. The company has identified the importance of resource efficiency as a regulatory and business requirement for all stakeholders.

Our Board

Robert Emslie (59)

INDEPENDENT NON-EXECUTIVE CHAIRMAN

BCom (Law), BCom (Acc)(Hons), CA(SA)

Appointed:
10 August 2016

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

Chairman of Silverbridge Holdings Limited and director of NEPI Rockcastle Plc. Former Head of Absa Business Banking, Absa Africa and Absa Corporate.

Rob Wesselo (53)

CEO

LLB

Appointed:
8 July 2016

Committees:
Investment Committee, Social and Ethics Committee

Extensive experience in property, including business development, deal structuring and negotiation and management of the operations of IHS in South Africa as Managing Director. Former Business Development Director at Group Five Building, former Head of Listed Property Funding at RMB, former Commercial Director at Pangbourne Properties and former Head of Equity Investments at Absa Commercial Property Finance.

Solly Mboweni (48)

COO

BCom, Postgraduate Diploma in Property Studies

Appointed:
8 July 2016

Committees:
Investment Committee, Social and Ethics Committee

Experience in heading up new business and asset management as Head of Housing Operations of IHS. Former Head of ABSA Devco Sustainable Integrated Development and former Vice President of the South African Institute of Black Property Practitioners.

Dave Lange (34)

CFO

BCom (Acc), BCom (Acc)(Hons), CA(SA), MSc (Property Studies)

Appointed:
10 August 2016 (resigned effective 8 March 2018)

Committee:
Social and Ethics Committee

Experience in the affordable housing market as former Senior Asset Manager and Dealmaker at IHS. Former manager at Deloitte & Touche.

Myles Kritzinger (33)

CFO

BCom (Acc), BCom (Acc)(Hons), CA(SA), Diploma in Insolvency Law (SARIPA)

Appointed:
9 March 2018

Committee:
Social and Ethics Committee

Experience in the affordable housing market and new fund development as former Dealmaker at IHS. Former Manager at Deloitte & Touche, former Financial Analyst at Absa Capital and Absa Retail banks and former Consultant at Nimble Risk Services.

Cathal Conaty (53)

NON-EXECUTIVE DIRECTOR

BA, MBA

Appointed:
10 August 2016

Committees: Investment Committee (Chairman), Social and Ethics Committee

Extensive experience in residential property investment, spanning portfolio management, deal structuring and negotiation, financial engineering and the management of major renovation projects. Chairman of the IHS Investment Committee and responsible for portfolio management and fund administration.

Former Regional Vice President of Boston Financial Group and former Principal at Lend Lease Real Estate Investments.

Michael Falcone (56)

NON-EXECUTIVE DIRECTOR

BA (Economics), MBA

Appointed:
10 August 2016

Committees: Remuneration Committee (Chairman), Investment Committee

Extensive experience in strategic planning, risk management and business development. Responsible for oversight of the performance of Hunt Companies as Executive President. Chief Executive Officer and President of MMA Capital Management and Executive Chairman of IHS.

Co-founder and Chair of TerraVerde Renewable Partners and former Senior Vice President at Shelter Group.

Michael Aitken (61)

INDEPENDENT NON-EXECUTIVE DIRECTOR

BA, LLB

Appointed:
10 August 2016

Committees:
Audit and Risk Committee (Chairman), Investment Committee

Extensive experience in property-related activities, with specific expertise in asset and fund management related to directly held and listed property vehicles. Past chairman of Hyprop Investments Limited and Director of Emira Property Fund Limited.

Faith Khanyile (50)

INDEPENDENT NON-EXECUTIVE DIRECTOR

BA (Economics),
MBA (Finance)

Appointed:
10 August 2016

Committees:
Audit and Risk Committee,
Remuneration Committee

Chief Executive Officer and one of the founding members at Women's Development Bank (WDB) Investment Holdings, former Head of Corporate Banking at Standard Bank.

Executive performance report

Introduction

IN DECEMBER 2016, TRANSCEND LISTED AS A REIT ON THE JSE'S ALTERNATE EXCHANGE ("ALTX"), JOINING THE LISTED PROPERTY MARKET WITH A QUALITY PORTFOLIO OF AFFORDABLE RESIDENTIAL PROPERTIES. IN ORDER FOR THE MARKET TO BECOME ACQUAINTED WITH OUR COMPANY, AND GAIN AN UNDERSTANDING OF THE PROPERTIES IN OUR PORTFOLIO, THE PRIORITY WAS TO DELIVER RESULTS THAT WERE IN LINE WITH EXPECTATIONS, AS SET OUT IN THE LISTING PROSPECTUS.

The nature of our assets differentiates us from other residential rental REITs. While the REIT market in South Africa has become more sophisticated, the residential segment of the listed property market is relatively new, and investors are discovering the attractive returns in this growing segment.

Economic environment

The risks and rewards in the local market, as well as the political environment, are inextricably linked, and as such, 2017 was a rollercoaster environment. The ever-changing political and economic drivers impacted the currency, the bond market and the inflationary environment causing a knock-on effect on the whole economy including the listed property sector. While the stressful environment impacted Transcend somewhat, we were shielded by the defensive nature of our particular sub-sector of the market, although the effects of economic pressure were felt by tenants.

New political leadership appears to have brought with it positive sentiment, rand strength, bond market strength and a dovish monetary policy outlook — all of which should have a positive impact on the performance of our business.

Urbanisation remains a powerful driving force for demand in the affordable housing market in South Africa and Africa. People move to cities from rural or semi-urban areas for improved employment and lifestyle opportunities, only to find that affordable housing is in short supply. The effects of urbanisation have been highly complementary to our growth and prospects, however, the current low-growth economic cycle has blunted the gains to an extent.

The external environment is volatile and consumers are feeling the pressure of credit stress, with an increasing number of tenant applications being declined on the basis of affordability and bad credit. As a result, rental escalations are lower than previous levels, and are compounded by higher utility costs. To succeed despite the challenges in this environment, we utilise the active asset and property management services of IHS to our advantage. The relationship with IHS is discussed further below, and on page 6 of this report.

Recent events unfolding in the country have exposed massive corruption between government, state-owned enterprises and the private sector, creating negative perceptions of governance and business in the country as a whole. The governing party's new administration is expected to focus on rooting out corruption in the public and the private sector. Furthermore, some JSE-listed companies have come under close scrutiny after widespread reports of grand-scale fraud and financial mismanagement. Overall, this is expected to be positive and growth-enhancing for Transcend and the broader South African economy as faith in the country's leadership is restored.

Performance highlights

We are pleased to report that Transcend performed well in the year under review — exceeding the forecast levels of both profits and dividends paid to shareholders.

Outperforming the challenging economic conditions, occupancy levels within the portfolio remained robust at 92.72%, marginally down from 93.1% in 2016. Six of our 13 buildings operate at occupancy levels between 98% and 100%.

For the year under review, profits increased to R41.77 million from R16.50 million in 2016 — this excludes a fair value gain on investment property of R29.24 million, as well as an interest rate swap loss of R3.03 million. This performance was pleasing, as we exceeded the forecast profit published in our prospectus by R0.32 million.

The actual dividend for the full year of 64.04 cents per share was 2% higher than the forecast dividend of 62.76 cents per share as published in our prospectus.

Transcend's portfolio of properties as at 31 December 2017 grew by 2% to R1.219 billion from R1.189 billion in 2016. Average rentals per m^2 increased by 6.37% to R106.9/m^2 from R100.5/m^2 in the prior year. The total gross lettable area ("GLA") of the portfolio stands at 124 634m^2.

Net asset value ("NAV") for the year grew to 10.39 cents per share from the prior year's NAV of 9.78 cents per share.

Gearing remained within range of our covenants during the year, with debt of R547 million and a loan to value ("LTV") ratio of 42%, which was an improvement over the prior year's LTV of 44%.

This good performance aligns with our objectives and targets, while successfully managing regulatory requirements and challenges related to rising utility costs. However, our strong management team anticipates a reduction in operating costs in the next two years, to offset the higher utility costs, through further improvements in asset and property management competencies.

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 the prior period results presented in the financial statements represent operating activities for three months only as Transcend recognised income and expenditure from the effective date of the property acquisitions as at 1 October 2016.

Affordable housing rental market

The South African affordable housing market is characterised by low arrears and low vacancies. End-user demand is growing at a rate faster than the market is being supplied with new product, which is adding to the shortfall.

The residential market's inherent strength lies in its defensive nature, which is due to strong demand from consumers in this segment. Currently, the affordable residential market can be considered one of the least risky property sectors, which is becoming more apparent to investors in listed property. Conversely, reversionary earnings due to the poor economic environment have impacted REITs that have significant exposure to office property.

We have the added advantage of many years' experience in this market and therefore understand the market and its characteristics. Internationally, affordable housing is seen as a highly defensive segment, while typically trading at lower yields as a result. However, due to local misperceptions of risk in the segment, affordable housing has been trading at higher yields in South Africa.

Competitors do exist in the broader residential market, albeit operating with different products in high-density central business districts, and not in as many areas or nodes where our properties are currently located. Other players in the market, as well as new entrants and investors are now looking to add affordable residential property to their portfolios.

Strategy in practice

To supplement the following discussion points on our strategic progress for the year under review, strategy and strategic objectives are discussed in further in detail on page 9 of this report.

Leveraging specialist market knowledge

Due to the defensive nature of the affordable housing market and the current undersupply, we are able to replace tenants who sustain significant financial pressure, or become unemployed and have to vacate. This is both a competitive differentiator and an advantage we have over the retail, industrial and commercial property markets, which have experienced higher vacancies than the affordable housing market due to economic stagnation in recent years.

We rise to the challenges within the economic environment of the listed property space by being agile and responsive. To this end, our outsourced property management function is adept at responding to changing conditions within the environment. If a property experiences rising vacancies due to financial stress on certain tenants, we are able to find new tenants to occupy the vacancies, with strong demand underpinning the segment.

As specialists in the affordable rental market, we operate a portfolio of properties that are typically newer rather than older, and well located in suburban areas with high demand. In order to remain a specialist, our product and service offering undergoes an ongoing process of improvement. These improvements contribute to the market's perceptions of the portfolio's overall quality, gains access to private equity, and lays the foundation for listing on the Main Board of the JSE.

Relationship with IHS

Complementing our market knowledge, is an expert team of 34 employees and 150 employees from IHS Asset Management ("IHS AM") and IHS Property Management ("IHS PM") respectively.

The relationship with IHS is key, and to this end, a contract is in place that lists the objectives of the relationship, what is required of either party, and the fees structure. IHS offers an opportunity for growth by providing access to products of the desired quality, located in the appropriate areas, and supported by a highly skilled team of outright specialists. This relationship is discussed in further detail on page 6.

Portfolio growth

Our Investment Committee approved the acquisition of three stabilised rental properties. These properties consist of 312 sectional title apartments situated in secure, walk-up complexes, and are located in Gauteng and the Western Cape. These properties are similar to existing properties in our portfolio. The deal will be concluded during April 2018 and the properties will be transferred to the business shortly thereafter. The value of the transaction is R136.2 million payable on transfer of the properties, acquired at a consolidated property yield of 9.6%.

Being environmentally conscious

Efficient, greener buildings with Edge

Improvements to our product offering include the innovative use of the Excellence in Design for Greater Efficiencies ("EDGE") — a software tool developed by the International Finance Corporation ("IFC"). We use Edge software to facilitate the development of "greener" buildings that are more cost effective, resource efficient, and socially popular in terms of trends.

IHS has been instrumental in the development of the IFC's Edge tool, and its introduction to the South African market. To this end, our strategy is to grow the portfolio with efficient properties that are Edge certified.

Addressing the water shortage

In Cape Town, the water shortage due to severe drought has become dire, threatening communities, tourism and the local economy. The situation is currently unfolding with local and national government working to manage the looming crisis, as the drought in the Western Cape has now been declared a national disaster. This includes a massive operation by local government to bring water tankers to communities for distribution as controlled rations. The availability of water as a scarce natural resource is something we are monitoring closely.

Apart from making buildings more efficient regarding the consumption of electricity and water, we address utility availability issues that stem from infrastructure problems on a municipal level. In Emalahleni, formerly Witbank, in Mpumalanga, the local authority is insolvent, which regularly impacts on the availability of water in the area. We manage this challenge for affected tenants by placing water tanks on site to ease the inconvenience.

Migration to the JSE Main Board

Our strategy is to migrate Transcend's listing from the AltX to the JSE's Main Board during the next 18 months subject to obtaining the necessary regulatory approvals. We meet with shareholders on a regular basis, and aim to grow the number of investors in order to improve share liquidity and see this strategy to fruition.

Changes to the Board

In January 2018, Dave Lange resigned from the Board, and stepped down as chief financial officer and executive director of the company with effect from 8 March 2018. We would like to thank Dave for his valuable contribution to the company and for the role he played in listing Transcend in 2016. We wish Dave well in his future endeavours.

We have appointed Myles Kritzinger as chief financial officer and executive director of the company with effect from 9 March 2018. We welcome Myles to the Board and look forward to his contribution to the company.

Outlook and prospects

The objective is to grow our portfolio of good quality properties that are well located in high growth, high demand areas. Supported by our robust product pipeline, there is growing interest in our offering, and the aim is to grow the shareholder base to create more liquidity. Dividend growth for 2018 is anticipated at levels between 6% to 8%, and excludes any new deals being factored in.

The outlook for the coming year is positive. Should the "green shoots" of the recent local economic growth be sustainable, the cost of capital will decrease and be more favourable to deal making and business in general. In an environment where the property index strengthens through a stronger rand and bonds, a lower cost of debt would also give access to sufficient capital for large acquisitions.

Having secured a sizeable and appropriate product pipeline for 2018, our plan is to migrate from the AltX listing to the JSE's Main Board. This benefit will unlock certain investor types that are not permitted to invest in companies listed on the AltX.

Our growth plans for the year ahead are underpinned by the product pipeline — this is fed by a combination of funds controlled by IHS, and bolstered by external opportunities resulting from our strategic relationships with most players in the affordable housing market. The positive outlook is also due to an improving political environment, and a markedly better local currency performance in recent months, and we are cautiously optimistic in this regard.

We are also mindful that the positive impacts from an improving political and economic environment can take time to play out in the market, lagging by several months due to fluctuating interest rates and fixed property market prices.

We expect that vacancy levels will remain low within the portfolio, and average occupancy levels are forecast between 94% to 98% during 2018. Rental escalations of 10% are anticipated in the Western Cape, and 5% in the rest of the portfolio, though these levels are lower than those of two and three years ago, the low-growth environment could see some growth to boost these figures.

Supported by the IHS team, we are well equipped to respond to challenges and uncertainties in the environment. While residential property is a defensive asset class, we will continue to leverage off the agility, capacity and strength of IHS.

Acknowledgements

Our sincere gratitude goes to our shareholders and other stakeholders for their loyal support of our strategy, management, and plans for the company.

A special thanks to the teams at IHS and Transcend for playing a significant role in the ongoing success of the company — their contributions are deeply appreciated.

To our Board and management, our heartfelt thanks for their dedicated efforts during a challenging year. Their oversight, guidance and wisdom is invaluable, and we look forward to working together once again in the coming year.

Robert Emslie
Chairman

Rob Wesselo
Chief Executive Officer

Johannesburg
18 April 2018

Property portfolio

As at 31 December 2017

67 on 7th

Edenvale, Gauteng

R97.5m
PROPERTY VALUE

157
UNITS OWNED

204
UNITS

16.32 months
AVERAGE LEASE TERM

February 2016
COMPLETED

8.25%
CAPITALISATION RATE

4.46%
VACANCY AS AT 31 DECEMBER 2017

Acacia Place

Spring Valley, Mpumalanga

R127.5m
PROPERTY VALUE

325
UNITS OWNED

325
UNITS

May 2016
COMPLETED

24.00%
VACANCY AS AT 31 DECEMBER 2017

15.84 months
AVERAGE LEASE TERM

9.50%
CAPITALISATION RATE

Alpine Mews

Eerste Rivier, Western Cape

90
UNITS

18.58 months
AVERAGE LEASE TERM

MAY 2013
COMPLETED

9.50%
CAPITALISATION RATE

1.11%
VACANCY AS AT 31 DECEMBER 2017

Ekhaya Fleurhof

Soweto, Gauteng

R69.5m
PROPERTY VALUE

162
UNITS OWNED

162
UNITS

February 2013
COMPLETED

1.85%
VACANCY AS AT 31 DECEMBER 2017

20.06 months
AVERAGE LEASE TERM

9.50%
CAPITALISATION RATE

Ekhaya Jabulani

Soweto, Gauteng

R90.6m
PROPERTY VALUE

244
UNITS OWNED

244
UNITS

17.64 months
AVERAGE LEASE TERM

February 2014
COMPLETED

9.50%
CAPITALISATION RATE

5.33%
VACANCY AS AT 31 DECEMBER 2017

Jackalberry Close

Jansen Park, Gauteng

R112.3m
PROPERTY VALUE

208
UNITS OWNED

252
UNITS

15.84 months
AVERAGE LEASE TERM

April 2014
COMPLETED

8.50%
CAPITALISATION RATE

13.94%
VACANCY AS AT 31 DECEMBER 2017

Kensington Place

Ferndale, Gauteng

R35.1m
PROPERTY VALUE

56
UNITS OWNED

56
UNITS

April 2012
COMPLETED

3.57%
VACANCY AS AT 31 DECEMBER 2017

15.95 months
AVERAGE LEASE TERM

8.50%
CAPITALISATION RATE

Molware

Kosmosdal, Gauteng

R138.5m
PROPERTY VALUE

252
UNITS OWNED

252
UNITS

Phase 1: September 2012
Phase 2: September 2013
COMPLETED

1.59%
VACANCY AS AT 31 DECEMBER 2017

18.94 months
AVERAGE LEASE TERM

8.50%
CAPITALISATION RATE

Parklands

Parklands, Western Cape

187
UNITS

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

2.14%
VACANCY AS AT 31 DECEMBER 2017

32.17 months
AVERAGE LEASE TERM

9.00%
CAPITALISATION RATE

Village Seven, Stone Arch Estate

Castleview, Gauteng

114
UNITS

March 2012
COMPLETED

1.75%
VACANCY AS AT 31 DECEMBER 2017

22.39 months
AVERAGE LEASE TERM

8.75%
CAPITALISATION RATE

Terenure Estate

Kempton Park, Gauteng

R214.2m
PROPERTY VALUE

350
UNITS OWNED

350
UNITS

October 2012
COMPLETED

7.14%
VACANCY AS AT 31 DECEMBER 2017

30.70 months
AVERAGE LEASE TERM

8.75%
CAPITALISATION RATE

Theresa Park Estates

Pretoria North, Gauteng

R98.0m
PROPERTY VALUE

242
UNITS OWNED

242
UNITS

June 2012
COMPLETED

4.96%
VACANCY AS AT 31 DECEMBER 2017

23.79 months
AVERAGE LEASE TERM

8.50%
CAPITALISATION RATE

Tradewinds

Ferndale, Gauteng

85
UNITS

September 2011
COMPLETED

0.00%
VACANCY AS AT 31 DECEMBER 2017

16.49 months
AVERAGE LEASE TERM

9.00%
CAPITALISATION RATE

Corporate governance

Message from the Chairman

It is the duty of all directors of the Board to act in the best interest of the company at all times. It is a company imperative to have a Board that exercises effective leadership based on an ethical foundation of fairness, accountability, responsibility and transparency, and to ensure that the company's ethics are applied and managed effectively. The Board fully subscribes to the principles of good corporate governance as set out in King IV and regards them as fundamentally important to the success of the business and its sustainability.

Effective management requires the approval and execution of efficient short-term and long-term strategies for the business, ensuring that adequate budgeting and business planning processes exist that are aligned to the company's strategic imperative, ultimately creating stakeholder value.

Being accountable means that ongoing communication with regards to financial and non-financial matters is provided in an open, prompt and meaningful manner and by encouraging shareholder attendance at general meetings. This is done in conjunction with the establishment and administration of a sound system of corporate governance and the Board is to act as the focal point for and custodian of corporate governance.

In order to ensure the company's sustainability, the Board appreciates that strategy, risk and performance are inseparable. The adopted Board Charter regulates the parameters within which the Board operates and ensures the application of the principles of good corporate governance in all dealings by, in respect and on behalf of, the company and it sets out the roles and responsibilities of the Board and individual directors, including the composition and relevant procedures of the Board.

Ultimate control and responsibility of the company rests with 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 on an annual basis and additional meetings are called as and when appropriate.

Board of Directors

Composition and structure

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.

As at year-end, the Board comprised:

- **R Emslie** Independent Non-executive Chairman
- **F Khanyile** Independent Non-executive Director
- **M Aitken** Independent Non-executive Director
- **C Conaty** Non-executive Director
- **M Falcone** Non-executive Director
- **R Wesselo** CEO
- **D Lange** CFO
- **S Mboweni** COO

Dave Lange resigned from the Board and stepped down as CFO and Executive Director of the company with effect from 8 March 2018. Myles Kritzinger was appointed in his place with effect from 9 March 2018.

The table on page 38 references the attendance of Board meetings. The company's Designated Advisor and Finance Manager attend meetings regularly by invitation.

The Board undertakes the role of a Nominations Committee and has the power to appoint directors, to fill any vacancy on the Board on a temporary basis, and any such appointments are confirmed by shareholders at the next annual general meeting.

The Board follows a transparent and formal process in recommending suitable candidates for the Board's consideration. The Board considers the appropriateness of prospective candidates recommended by the Nominations Committee for appointment to the Board.

The Board, with respect to gender and race, represents as far as possible the demographics of South Africa. Every individual Board member contributes the appropriate knowledge, skills, resources, objectivity and experience as required by the company. The Board has determined that its size, diversity and demographics make it an effective Board. The Board believes that diversity not only applies to academic qualifications, technical expertise, relevant industry knowledge and experience but also to nationality, age, race and gender.

At present, Transcend has one female director. As per the gender equality/diversity policy which was adopted on 28 March 2017, the Board recognises the importance of promoting gender at Board level.

Given the company's size and its relatively short operating history, 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.

The independence of all independent non-executive directors is assessed on an annual basis and a specific focus on the independence of independent non-executive directors who have served for more than nine years and the outcome of such assessments will be reported on in future annual reports.

Chairman

The roles of the Chairman and Chief Executive Officer ("CEO") are separate with the Chairman being independent. The company's Chairman is Robert Emslie.

The Chairman is appointed on an annual basis and is responsible for the effective leadership of the Board by fulfilling the role and functions in terms of King IV. The Board has ensured that a proper succession plan for the position of Chairman is in place.

The Chairman sets the ethical tone for the Board and the company and provides overall leadership to the Board without limiting the principle of collective responsibility for Board decisions, while at the same time being aware of the individual duties of Board members.

The Chairman actively participates in the selection of Board members, as well as overseeing the formal succession plan for Board members, the CEO and executive managers.

The Board's annual work plan is formulated by the Chairman, who, in conjunction with the CEO and the Company Secretary, sets the agenda for Board meetings while ensuring that Board minutes properly reflect Board deliberations and decisions.

As the major point of contact between the CEO and the Board, the Chairman is kept fully informed of the day-to-day matters of interest to directors, while maintaining an arm's length relationship.

The Chairman maintains strong relations with the company's major shareholders and its strategic stakeholders in conjunction with the CEO and senior managers; builds and maintains stakeholders' trust and confidence in the company; and presides over shareholder meetings.

Chief Executive Officer

The Board 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.

The CEO has developed and recommended to the Board a long-term strategy and vision together with the Board's annual business plans and budgets that support this strategy in order to generate satisfactory levels of shareholder value. The CEO has established the organisational structure for the company which is necessary to enable execution of its strategy.

In conjunction with the Board, the CEO ensures proper succession planning for executive management as well as proper performance appraisals for executive management.

The company's performance and its conformance with compliance imperatives is monitored and reported on to the Board by the CEO who formulates and oversees the implementation of company policies.

In addition, the CEO sets the tone at management level in providing ethical leadership and creating an ethical environment and maintaining a positive and ethical work climate that is conducive to attracting, retaining and motivating a diverse group of quality employees.

With the assistance of the Audit and Risk Committee as well as the Company Secretary, the CEO ensures that the company complies with all relevant laws and corporate governance principles and applies all recommended best practices.

Balance of power

The company has a unitary Board, comprising a balance of power, with a majority of non-executive directors. The majority of non-executive directors are independent.

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.

Board evaluation

In the past, King III recommended that an evaluation of the Board, its committees and its individual members be conducted every year. However, to provide for sufficient time to appropriately respond to the results of such performance evaluations, King IV recommends that a formal evaluation process be conducted at least every two years and that every alternate year, the Board schedules an informal opportunity for consideration of, reflection on and discussion of its performance.

Informal evaluations of all committees were performed in 2017 with reference to their terms of reference. All committees and the Board's performance were found to be satisfactory for the 2017 year. It was agreed at the Board meeting held on 16 November 2017 that formal performance evaluations would be conducted during the 2018 financial year.

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 IV 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 implemented 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 annual report;
- appointing the CEO; and
- establishing a framework for the delegation of authority.

The Board confirms that it is satisfied that it has carried out its duties and responsibilities in compliance with its mandate and the Board Charter.

Board appointments and rotation

The Board undertakes the role of a Nominations Committee and the selection, 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.

The Company Secretary assists the Board and ensures that the procedure for the appointment of directors is properly carried out.

No director is appointed for life or for an indefinite period. 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, or if their number is not three or a multiple of three, the number nearest to one third but not less than one third, retires from office, provided also that at least one third of the non-executive directors, or if their number is not three or a multiple of three, the nearest to one third, but not less than one third, will retire from office. The appointment of executive directors shall be terminable by way of a Board resolution.

Access to information

The Board constantly reviews the information requirements of directors to enable them to act in the best interests of the company, perform their duties and fulfil their obligations responsibly. In order to make informed decisions, directors must have adequate information and facts covering the matter at hand, which is included in a detailed Board pack that is provided well in advance of all meetings.

All Board members have access to company records, information, documents and property. All non-executive directors have unfettered access to management at any time.

Development of directors

With the assistance of the Board, the Chairman and the Company Secretary ensure that all directors are appropriately made aware of their responsibilities through a tailored induction programme, and ensure that a formal programme of continuing professional education is adopted by the Board.

The Chairman is also responsible for ensuring the ongoing effectiveness, mentoring and development of the Board and individual directors while the Company Secretary sees to the orientation, ongoing training and education of directors, including assessing the specific training needs of directors and senior managers in their fiduciary and other governance responsibilities.

Directors are provided with regular briefings on changes in risks, laws and the environment and are expected to keep abreast of developments in the business environment and markets that may have a material impact on the business.

Board committees

The Board has delegated certain functions to the Audit and Risk Committee, Remuneration Committee, Social and Ethics Committee and Investment 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.

Remuneration Committee

The Remuneration Committee comprises three members, namely Michael Falcone, Non-executive Director and Chairman of the committee, Faith Khanyile, and Robert Emslie, both Independent Non-executive Directors. The CEO, CFO and Finance Manager attend meetings by invitation, and are excluded from deliberations regarding their, or any other executive directors' remuneration.

Meeting attendance

Member	Board	Audit and Risk Committee	Remuneration Committee	Social and Ethics Committee	Investment Committee
CHAIRMAN	**R Emslie**	**M Aitken**	**M Falcone**	**S Mboweni**	**C Conaty**
Number of meetings held	4	4	1	2	3
R Emslie	4/4	4/4	1/1	N/A	2/2
F Khanyile	4/4	4/4	1/1	N/A	N/A
M Aitken	4/4	4/4	N/A	N/A	2/2
C Conaty	4/4	N/A	BI	2/2	2/2
M Falcone	4/4	N/A	1/1	N/A	1/2
R Wesselo	4/4	BI	BI	2/2	2/2
S Mboweni	4/4	BI	N/A	2/2	BI
D Lange	4/4	BI	BI	2/2	BI

N/A: Not applicable. BI: By invitation.

Curricula vitae of these directors are presented on pages 16 to 18 of this integrated annual report.

The table on page 38 references the attendance of the committee meeting.

A detailed remuneration report is presented on page 45 of this integrated annual report.

Audit and Risk Committee

The Audit and Risk Committee comprises three members, namely Michael Aitken, Independent Non-executive Chairman of the committee, Robert Emslie and Faith Khanyile, both Independent Non-executive Directors. 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.

The table on page 38 references the attendance of the committee meetings. The company's CEO, CFO, COO, external auditors, Designated Advisor and Finance Manager attend meetings regularly by invitation.

Curricula vitae of these directors are presented on pages 16 to 18 of this integrated annual report.

A detailed Audit and Risk Committee report commences on page 41 of this integrated annual report.

Social and Ethics Committee

As at 31 December 2017, the Social and Ethics Committee comprises four members, namely Solly Mboweni, Chief Operations Officer and Chairman of the committee, Cathal Conaty, Non-executive Director, Rob Wesselo, CEO and Dave Lange, CFO.

King IV requires a majority of non-executive directors on the Social and Ethics Committee. The Board acknowledges this non-compliance and commits to aligning the committee composition during the year.

Curricula vitae of these directors are presented on pages 16 to 18 of this integrated annual report. The Finance Manager attends meetings by invitation.

Dave Lange resigned from the Board and stepped down as CFO and Executive Director of the company with effect from 8 March 2018. Myles Kritzinger was appointed in his place with effect from 9 March 2018 and will be a member of the Social and Ethics Committee.

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 table on page 38 references the attendance of committee meetings.

A detailed Social and Ethics Committee report commences on page 44 of this integrated annual report.

Investment Committee

The Investment Committee comprises five members, namely Cathal Conaty, Non-executive Director and Chairman of the committee, Robert Emslie and Michael Aitken, both Independent Non-executive Directors, Rob Wesselo, CEO and Michael Falcone, Non-executive Director.

Curricula vitae of these directors are presented on pages 16 to 18 of this integrated annual report.

All members of this committee have extensive experience and technical expertise in the residential property industry. The COO and CFO attend committee meetings by invitation as does the Finance Manager.

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

The committee meets to discuss and approve the valuations of the properties, which are then recommended for approval to the Audit and Risk Committee. The entire portfolio was valued at 31 December 2016, and was revalued at 31 December 2017 by an independent third-party valuer.

Furthermore, the committee meets on an ad hoc basis to discuss and approve investment opportunities and strategic alliances.

The committee's focus for 2018 is to support management in finding appropriate opportunities which will enable Transcend to achieve its medium to long-term growth strategy.

The committee met thrice during the year and the table on page 38 references the attendance of committee meetings.

The terms of reference were reviewed and a minor amendment was made. All other responsibilities were fulfilled.

Company Secretary

The Company Secretary is Corpstat Governance Services (Pty) Ltd, an independent company secretarial practice and represented by Karen Waldeck. Karen is an admitted attorney of the High Court of South Africa. After obtaining her LLB degree at the University of Johannesburg, she completed her articles of clerkship at Derek Mazaham Attorneys, an established law firm based in Parktown North. She also attended the full time practical legal training course at the School for Legal Practice. During her studies, she attended the Webber Wentzel Student Vacation Programme. She also completed a course on Administration Company Secretarial Practice and Corporate Governance. Karen has gained experience in the company secretarial field over the past 10 years while working at CorpStat Governance Services and previously as an assistant to the Group Company Secretary at Pangbourne Limited. She is experienced in Board and committee meeting support and has extensive knowledge of the Companies Act, King IV, legislative and regulatory requirements, and drafting of memoranda of incorporation.

During the year under review, the Board has considered and satisfied itself that the Company Secretary is competent, and has the necessary qualifications and experience to act as Company Secretary of the company, is not a director of the company and has been empowered to fulfil her duties.

The Board reviews the Company Secretary's performance 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 her required duties. The Company Secretary has, in addition to her statutory duties, fulfilled the duties of the Company Secretary as contemplated in King IV.

It is the Company Secretary's duty to make all the directors aware of any law relevant to or affecting the company. The Company Secretary attends all Board and committee meetings as secretary.

Ethics performance

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 CEO, Rob Wesselo, leads the executive team and attends to the day-to-day functions of the business. Please refer to note 29 Directors' remuneration and benefits to the annual financial statements for further information on directors' interests.

Code of Ethics

The Board is responsible for the strategic direction of the company. It sets the values that the company adheres to and is currently compiling a code of ethics which will be adopted and 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 will 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

Board members are obliged to disclose in writing any personal financial interest in terms of section 75 of the Companies Act and any other interests they have within or outside the company and the Group that may be of interest to the company or that may interfere or conflict with the performance of their duties.

The Board is in the process of compiling 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, which will be rolled out in 2018. Real or perceived conflicts in the Board will be managed in accordance with the pre-determined policy used to assess a director's interest in transactions.

Any possible conflict of interest is declared in the manner prescribed by law and in terms of the company's memorandum of incorporation ("MOI"), as soon as a director becomes aware of the conflict, and in any event prior to the consideration of the matter to which the conflict relates, at any Board meeting. The director concerned does not participate in a discussion or vote on the subject matter and will leave the meeting immediately after making the requisite disclosure.

Audit and Risk Committee report

For the year ended 31 December 2017

The Audit and Risk Committee ("the 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, its primary objective is to assist the Board in discharging its responsibilities relating to the safeguarding of assets, the operation of adequate and effective systems and control processes, the preparation of fairly presented financial statements in compliance with all applicable accounting standards, legal and regulatory requirements, oversight of the external audit appointment and functions, as well as the risk management process.

The committee has an independent role with accountability to both the Board and shareholders. The committee does not assume the functions of management of the company, which functions remain the responsibility of the company's executive directors. The committee operates within the delegated authority of the Board.

In compliance with its oversight role in relation to the preparation of this report, the committee will have due regard to all factors and risks that may impact on the integrity of the integrated annual 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 IV where appropriate, and the JSE Listings Requirements.

Committee composition

The committee comprises three members, namely Michael Aitken, Independent Non-executive Chairman of the committee, Robert Emslie and Faith Khanyile, both 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, COO and the Company Secretary attend the committee meetings as invitees as well as the company's sponsor, external auditors and the financial manager. 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 committee met four times during the year and the table on page 38 references the attendance of the committee's meetings.

Statutory and regulatory duties

In the execution of its statutory duties during the past financial year, the committee:

- Nominated KPMG Inc. for reappointment by shareholders at the company's annual general meeting on 29 May 2018, having determined that they have the necessary expertise and are independent of the company;
- Determined the auditor's terms of engagement and the fee to be paid;
- Ensured that the appointment of the auditor complies with the Companies Act, the Auditing Profession Act, the JSE Listings Requirements and other relevant legislation;
- Reviewed and approved the FY2017 external audit plan;
- Pre-approved the non-audit services contract relating to tax compliance;
- Received no complaints relating to the accounting practices of the company, the content of auditing of its financial statements, the internal financial controls of the company, and any other related matters; and
- Made the following submission to the Board on matters concerning the company's accounting policies, financial control, financial records and financial reporting:
  - Agreed that the adoption of the going concern principle in the preparation of the financial statements is appropriate.
  - Determined that the company is both solvent and liquid.
  - Recommended 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 and documents these risks in a matrix which is reviewed regularly by the committee. 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 the company from entering into any derivative transactions that are not in the normal course of the company's business, and the committee ensures compliance therewith.

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, among 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 risks as it relates to financial reporting;
- Internal financial control;
- Business continuity risk; and
- Fraud and error risks as it relates to financial reporting.

Risk management is discussed in more detail on page 12 of this integrated annual report.

External audit

In terms of the company's policy, the committee must ensure that the lead engagement partner within the appointed firm is rotated every five years. The committee has evaluated the performance of the external auditors and is satisfied therewith. The committee received regular written and verbal feedback on the public investigations into KPMG's conduct surrounding the Gupta state capture matter and was satisfied that the impact of the investigations did not in any way detract from KPMG's ability to perform the external audit of the company, particularly in light of the fact that none of the individuals involved in the audit were involved in the investigation in any way.

The committee is also aware of the new JSE Listings Requirements which require the committee to approve the appointment of the audit firm and individual partner based on specific information which is required to be submitted. These items were considered during the assessment of the suitability of the external auditors and lead partner for re-appointment for the 2018 financial year.

The committee confirmed that the external auditors had executed their audit responsibilities and had functioned in accordance with their mandate for the 2017 financial year. No matters of concern regarding the performance of the external auditors were noted by the committee.

Financial statements

The committee reviewed the interim results and the annual financial statements for the year ended 31 December 2017, including the public announcements of the company's financial results, prior to the recommendation of their approval to the Board.

The committee reviewed the significant accounting matters and management's key estimates and assumptions and confirmed that they were adequately addressed. The most significant matter in the financial statements is investment properties.

The committee also considered the JSE's 2016 report on pro-active monitoring of financial statements and was satisfied, based on management's documented response thereto, that all the items highlighted by the JSE had been adequately addressed to the extent required. The committee and company continue to be committed and to practice the highest standards of financial disclosure. The committee has satisfied itself that appropriate financial reporting procedures are in place and operating effectively.

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.

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 committee to initiate internal audit investigations as and when deemed necessary.

The company 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 International Housing Solutions Asset Management (Pty) Ltd ("IHS AM") and International Housing Solutions Property Management (Pty) Ltd ("IHS PM") which perform the asset management and property management activities respectively on behalf of the company.

During the current financial year, the accounting system of both services organisations was migrated from Nicor to MDA. The committee has:

- Received assurance from management that the effectiveness of the company's system of internal financial controls was sound before, during and after the migration, and continues to be strengthened.
- Reviewed the report of the external auditors in respect of the audit conducted on the migration, taken note of any matters arising from this audit and considered the appropriateness of the responses received from management.

Nothing was brought to the attention of the committee that would suggest a material breakdown of any internal control system. Based on the processes and assurances obtained, the committee is satisfied that the internal control environment continued to function effectively.

In accordance with paragraph 3.84(g)(ii) of the JSE Listings Requirements, the company confirms that is has established appropriate financial reporting procedures and that those procedures are operating.

Technology and information governance

The Board mandated the committee to provide oversight over technology and information ("IT") governance. The relevant IT governance mandates, policies, processes and control frameworks will be further formalised in the future. The committee is fully committed to ensure compliance with the required standards.

Regulatory compliance

The committee is satisfied that the company complied with all relevant laws and regulations. In exercising this function, the committee considered all legal matters that may have a material impact on the company and any material reports and/or enquiries from regulatory or government bodies. It is satisfied that there are sufficient processes in place to detect non-compliance.

Finance function

The committee believes that Dave Lange CA(SA), the CFO for the year under review, possessed the appropriate expertise and experience to meet his responsibilities in that position as required by the JSE Listings Requirements.

The committee is 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 assurances obtained, the committee believes that the accounting processes are effective.

The committee has fulfilled its function and responsibilities, as mentioned above, and has executed its duties during the year under review, complying with its legal, regulatory and other responsibilities in accordance with its terms of reference.

Integrated annual report

The committee will review the integrated annual report for the 2017 financial year to ensure that it is consistent with operational, financial and other information made available to the committee. The committee will satisfy itself of the integrity of the integrated annual report, ensuring that the report is prepared using appropriate reporting standards, which conform to the requirements of King IV and the JSE Listings Requirements.

The committee has recommended the 2017 integrated annual report to the Board for approval, based on the processes and assurances obtained.

On behalf of the Audit and Risk Committee

Michael Aitken
Chairman

7 March 2018

Social and Ethics Committee report

Introduction

The Social and Ethics Committee ("the committee") is constituted as a statutory committee in respect of its statutory duties in terms of sections 72(8) of the Companies Act and regulation 43 of the Companies Act Regulations. The committee is also constituted as a committee of the Board of the company in respect of all other duties that the Board has assigned to it.

The committee's objective is to assist the Board in ensuring that the company is and remains committed, socially responsible corporate citizens by creating a sustainable business and having regard to the company's economic, social and environmental impact on the communities in which it operates, which inter alia include public safety, HIV/Aids, environmental management, corporate social investment, consumer relationships, labour and employment, and the promotion of equality and ethics management.

The committee has an independent role with accountability to both the Board and the company's shareholders. The committee does not assume the functions of management of the company, which functions remain the responsibility of the company's executive directors, executive management and senior managers.

In respect of the statutory duties of the committee, the committee is accountable to shareholders and report to shareholders as provided for in the Companies Act. In respect of all other duties as contained in these terms of reference, the committee will be accountable and report to the Board.

Committee composition

As at 31 December 2017, the Social and Ethics Committee comprised four members, namely Solly Mboweni, COO and Chairman of the committee, Cathal Conaty, Non-executive Director, Rob Wesselo, CEO and Dave Lange, CFO.

Curriculum vitae of these directors are presented on pages 16 to 18 of this integrated annual report. The financial manager attends meetings by invitation.

Dave Lange resigned from the Board and stepped down as CFO and Executive Director of the company with effect from 8 March 2018. Myles Kritzinger was appointed in his place with effect from 9 March 2018. Myles also became a member of the committee from his date of appointment.

King IV requires a majority of non-executive directors on the Social and Ethics Committee. The Board acknowledges this non-compliance and commits to aligning the committee composition during the year.

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 table on page 38 references the attendance of committee meetings.

Terms of reference

The committee has adopted terms of reference which includes statutory duties in terms of sections 72(8) of the Companies Act and regulation 43 of the Companies Act Regulations, as well as other duties assigned to it by the Board.

These Board assigned duties include:

- Implement a formal corporate social responsibility and environmental sustainability framework;
- Reviewing any statements on ethical standards or requirements for the company and the procedures or review system implemented to promote and enforce compliance;
- Reviewing significant cases of employee conflicts of interest, misconduct or fraud, or any other unethical activity by employees or the company;
- Where requested, making recommendations on any material potential conflict of interest or questionable situations;
- Ensuring that the company's ethics performance is assessed, monitored, reported and disclosed;
- Being informed of sustainability risks;
- Ensuring that sustainability reporting conforms to the Global Reporting Initiative Guidelines, as and when it is amended from time to time;
- Overseeing sustainability issues in the integrated annual report and the sustainable development report;
- Ensuring that a formal process of assurance with regard to sustainability reporting is established through the Audit and Risk Committee;
- Approving material elements of sustainability reporting over which the external assurance provider should provide assurance;
- Reviewing and approving (at least every second year) the company's stakeholder management plan and policy; and
- Reviewing results of whistleblowing activities.

The key focus areas of the committee for 2017 were:

- The creation of a working document to ensure compliance with the committee's terms of reference
- The appointment of a compliance officer to assist with the fulfilment of the committee's duties

The planned areas of focus for the committee for 2018 are as follows:

- The improvement of the company's B-BBEE scorecard
- Compliance with the Employment Equity Act
- The implementation of policies to ensure compliance with its terms of reference

It is the intention of the committee to continue working towards fully complying with its terms of reference and all its responsibilities in terms thereof.

Solly Mboweni
Chairman

Johannesburg
18 April 2018

Remuneration report

LETTER FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE TO SHAREHOLDERS

Dear shareholders

I am pleased to present Transcend's remuneration report for the 2017 financial year. We believe that appropriately designed, fair and market-related remuneration will retain high-calibre employees who contribute positively to Transcend's strategic objectives. A motivated and skilled management team is considered as being integral to the successful implementation of the company's strategic objectives and members of the team are remunerated accordingly for their contributions.

A key objective of this report is to describe the manner in which Transcend has developed and formalised its remuneration policy.

In line with King IV and read with the JSE Listings Requirements, we have segmented the remuneration report into three sections:

- A letter to shareholders setting out the areas of focus of the Remuneration Committee ("the committee");
- A forward-looking remuneration policy; and
- The implementation of these arrangements in financial year 2017.

In line with King IV, the company's Remuneration Policy and the Remuneration Implementation Report will be tabled annually at the company's annual general meeting, to be endorsed by shareholders, each by way of separate non-binding advisory votes. This allows shareholders to express their views on the company's Remuneration Policy and the Remuneration Implementation Report.

We will put the forward-looking remuneration policy and the Implementation Report for the 2017 financial year to non-binding advisory votes at the 2018 annual general meeting ("AGM") to be held on Tuesday, 29 May 2018. In the event of 25% or more shareholders voting against the non-binding resolutions pertaining to the Remuneration Policy and/or the Remuneration Implementation Report, the Directors are committed to engaging with shareholders in order to address all legitimate and reasonable objections and concerns.

Areas of focus

Activities of the committee in financial year 2017:

- Reviewed the terms of reference, and made recommendations for amendments in light of the provisions of King IV;
- Developed a succession plan;
- Considered the implementation of a share incentive scheme;
- Reviewed executive directors' total remuneration;
- Reviewed non-executive directors' fees with the assistance of executive management;
- Performed a benchmarking exercise to compare remuneration against industry standards for companies of similar size; and
- Reviewed and approved the 2017 remuneration report.

In our efforts to continuously improve, we welcome any comments that you may have on our report, or any concerns regarding the remuneration policy.

Remuneration governance

The committee operates independently from executive management. It acts as an overseer and makes recommendations on remuneration-related decisions to the Board and IHS AM for its consideration and final approval. Please refer to the Remuneration Policy on page 46. The committee is governed by its terms of reference, which are reviewed and amended as and when required and approved by the Board.

In summary, the role and duties of the committee are to:

- Advise the Board in determining appropriate remuneration strategies;
- Ensure that the link between performance and reward is maintained;
- Oversee the development of remuneration instruments and policies;
- Devise and recommend a policy that results in fair, responsible and transparent remuneration for executive directors;
- Oversee the establishment of a Remuneration Policy that articulates and gives effect to its direction on fair, responsible and transparent remuneration and which will promote the achievement of strategic objectives and encourage individual performance;
- Ensure that the Remuneration Policy and Remuneration Implementation Report are put to two separate non-binding advisory votes at the AGM;
- Review the outcomes of the implementation of the Remuneration Policy to determine whether the set objectives are being achieved;
- Consider the results of the evaluation of the performance of the CEO and other executive directors, both as directors and as executives, in determining remuneration;
- Advise on the remuneration of non-executive directors; and
- Oversee the preparation and recommendation to the Board of the Remuneration Implementation Report to ensure that:
  - Remuneration is disclosed in three parts, namely: a background statement; an overview of the Remuneration Policy; and an Implementation Report;
  - It is accurate, complete and transparent;
  - It provides a clear explanation of the manner in which the Remuneration Policy has been implemented;
  - It provides a sufficient level of disclosure as required in terms of King IV or provides rationale behind principles not applied by the company. Where the principles are not applied by the company, the committee should review the rationale provided by the company and ascertain as to whether this is acceptable; and
  - It provides sufficient forward-looking information for stakeholders to pass a special resolution in terms of section 66(9) of the Companies Act.

Transcend Remuneration Policy

Transcend is externally managed by IHS Asset Management (Pty) Ltd ("IHS AM") through an Asset Management Agreement ("AMA"). IHS AM is wholly owned by International Housing Scheme (RF) (Pty) Ltd ("IHS"). Through a service level agreement ("SLA"), 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."

The committee is responsible for reviewing and recommending the remuneration of executive directors to the Board and to IHS AM in line with its policy detailed below:

Transcend has developed a remuneration policy in line with King IV. All components of the reward strategy, including the basic salary and the short-term incentive payments, are aligned to the strategic direction and business-specific value drivers of Transcend.

The key principles of the Remuneration Policy are to:

- Reward, recognise and give appreciation for superior performance;
- Direct employees' energies and activities towards the key business goals;
- Link the company and individual performance to reward; and
- Apply an integrated and holistic approach to the reward strategy, encompassing a balanced mix of:
  - Basic salary; and
  - Short-term incentive bonus.

The reward strategy and each of its components are dynamic and are both therefore reviewed regularly to ensure that Transcend's remuneration policy keeps pace with market practices and the company's evolving organisational context and objectives.

Remuneration mix: The executive directors' total remuneration consists of a basic salary, defined as the employment cost to the company and an annual performance-linked bonus. This will ensure that there is the necessary balance between fixed and performance-related remuneration as well as elements linked to short-term performance.

Guaranteed package: This is the total guaranteed annual employment cost to the company associated with the employment of an executive director. It is structured based on an all-inclusive salary package; no separate pension fund contribution is paid. A cost of living increase in the basic salary is considered by the committee and recommended to IHS AM on an annual basis and implemented from 1 March in the applicable year, if the financial position of the company allows for such an increase.

Factors that are taken into consideration in determining the recommended annual increase include: consumer price index (CPI), retention strategies, industry performance, projected growth, contractual arrangements and affordability.

Short-term incentive: This is a short-term incentive plan for which rewards are determined against the achievement of a set of annual company and individual performance targets determined by the committee and approved by the Board for recommendation to IHS AM.

The incentive architecture provides for:

- Company and individual performance related to a specific time period;
- Meaningful performance measures;
- Annual revision by the committee and recommendation to IHS AM, to ensure the continuing appropriateness of performance measures, the weighting of measures and the split between individual and company performance;
- The weighting of performance measures varies depending on seniority, relevance, and ability to influence the outcome.

Long-term incentive plan ("LTIP"): The company has elected not to adopt a long-term share-based scheme. Such a scheme may be considered in the future.

Non-executive directors

Transcends policy on non-executive directors' remuneration is set and reviewed on an annual basis by the committee and is benchmarked against industry norms. Ultimate approval of the non-executive directors' fees lies with shareholders who are tasked with approving fees at the annual general meeting of shareholders.

Remuneration Implementation Report

Adherence to the Remuneration Policy

In accordance with the directives set in the company's Remuneration Policy, the committee, the Board and IHS AM have performed their respective duties with regards to oversight of all remuneration matters concerning the remuneration of executive directors, and where applicable, made recommendations to the Board regarding remuneration during the year under review. The Remuneration Policy was implemented accordingly and the remuneration of executive and non-executive directors for the year under review is set out on page 84 in note 29 of the annual financial statements.

Approval

This remuneration report was approved by the Remuneration Committee of Transcend on 18 April 2018.

Yours sincerely

Michael Falcone
Chairman

Remuneration Committee

Annual financial statements

Please refer to the Audit and Risk Committee report on pages 41 to 43.

The financial statements of Transcend have been audited by KPMG Inc. in compliance with section 30 of the Companies Act, as amended, and the preparation of the company financial statements was supervised by Dave Lange CA(SA), Transcend's CFO.

A summary of these annual financial statements was published on the Stock Exchange News Service on 9 March 2018. The complete annual financial statements of the company for the financial year ended 31 December 2017 and the period ended 31 December 2016 may be obtained free of charge:

- from the transfer secretaries, Link Market Services South Africa (Pty) Ltd, or
- from the company's website at: **www.transcendproperty.co.za**, or
- by request from the company.

Directors' responsibility statement

The directors are responsible for the preparation and fair presentation of the annual financial statements of Transcend, comprising the statement of financial position as at 31 December 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, 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. 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 of 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 as identified in the first paragraph, were approved by the Board of Directors on 7 March 2018 and are signed by:

Robert Emslie
Chairman

Rob Wesselo
Chief Executive Officer

Dave Lange (Resigned 8 March 2018)
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, that for the year ended 31 December 2017, the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Companies Act and that all such returns are true, correct and up to date.

Karen Waldeck
CorpStat Governance Services (Pty) Ltd

Company Secretary
7 March 2018

Directors' report

THE DIRECTORS HAVE PLEASURE IN SUBMITTING THEIR REPORT FOR THE YEAR ENDED 31 DECEMBER 2017.

Nature of business

Transcend listed on the Alternative Exchange ("AltX") of the JSE Limited ("JSE") on 1 December 2016 (ISIN: ZAE000227765), in the Sector: Financial Services — Real Estate Investment Trusts (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. There were no acquisitions during the year under review.

Regulation

As a listed company on the JSE, the company is regulated by the JSE and as a South African incorporated company, is required to adhere to the Companies Act as well as all other South African legislation applicable to the company.

International Financial Reporting Standards

The financial statements are prepared in accordance with International Reporting Standards ("IFRS") and the requirements of the Companies Act.

Review of results for the financial period

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 positive variance between the actual profit for the current period and the forecast as per the 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.

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, subject to solvency and liquidity testing as required by the Companies Act;
- the capital commitments of the company and its funding requirements for the next 12 months; and
- the income tax provisions and JSE Listings Requirements' regulations in so far as they pertain to REITs.

Dividend distributions

On 29 March 2017, the Board declared a final dividend of 5.61 cents per share for the six month period ended 31 December 2016, which was paid on 24 April 2017.

On 7 September 2017, the Board declared an interim dividend of 29.81 cents per share for the six months ended 30 June 2017, which was paid on 2 October 2017.

Subsequent to year end, on 7 March 2018, the Board declared a final dividend of 34.23 cents per share for the six months ended 31 December 2017, which was paid on 9 April 2018.

This dividend has been declared from distributable earnings and meets the requirement of a REIT "qualifying distribution" for purposes of section 25BB of the Income Tax Act, No 58 of 1962, as amended.

Transcend uses distribution per share as its key performance measure for trading statement purposes.

Directorate

The directors of the company at the date of this report were:

Executive directors

- RN Wesselo — Chief Executive Officer
- S Mboweni — Chief Operating Officer
- DP Lange — Chief Financial Officer

Non-executive directors

- RR Emslie* — Chairman
- ML Falcone
- CP Conaty
- MS Aitken*
- FN Khanyile*

** Independent.*

RR EMslie, MS Aitken and FN Khanyile will retire at the annual general meeting to be held on Thursday, 29 May 2018 and are eligible for re-election as directors of the company.

The following changes to the directorate took place subsequent to year end:

- DP Lange resigned as the chief financial officer on 8 March 2018; and
- M Kritzinger was appointed as the chief financial officer on 9 March 2018.

Directors' remuneration and shareholding

Details of the directors' remuneration and shareholding are set out in note 29 to the 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. 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 31 to the financial statements for disclosure regarding going concern.

Subsequent events

Refer to note 30 to the financial statements for disclosure regarding subsequent events.

Auditors

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

Registered office and business address

Peter Place Office Park, Block C, Cardiff House

54 Peter Place Road

Bryanston

2191

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 54 to 86, which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, a summary of significant accounting policies and notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company as at 31 December 2017, and its financial performance and cash flows for the year 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	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
Valuation of investment property Refer to accounting policy 5.1 and notes 6 and 8 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 2017 by an external independent valuer. The fair value of all investment property has been based on income capitalisation. The key assumptions used in determining fair value includes significant unobservable inputs including expected net operating income, capitalisation rates, growth rates and vacancy factors. Our audit focused on the fair value measurement due to its impact on the financial statements and the significance of the judgments involved in the determination of fair value.	Our audit procedures performed included the following: › We assessed the competence, capabilities and objectivity of the directors' external independent valuers. In addition, we obtained an understanding of the scope of their work and inspected 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 fair value which included: » Evaluating the valuation models prepared in December 2017 to ensure the valuation methodology is appropriate. » With the assistance of our valuation experts, we assessed the reasonableness of key assumptions used, in relation to available industry data for similar investment properties. » We performed a sensitivity analysis on the key assumptions used in the valuation models to evaluate the appropriateness of the fair value of the investment properties at year-end.

Other information

The directors are responsible for the other information. The other information comprises the Directors' report, the Audit and Risk Committee report and the Certificate by the company secretary 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 annual 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 two years.

KPMG Inc.
Registered Auditor

Per GS Kolbé
Chartered Accountant (SA)
Registered Auditor
Director

8 March 2018

KPMG Crescent, 85 Empire Road, Parktown, Johannesburg

Statement of financial position

As at 31 December 2017

Figures in R'000	Note	2017	2016
ASSETS			
Non-current assets			
Investment properties	8	**1 218 640**	1 189 400
Property and equipment	9	**754**	—
		1 219 394	1 189 400
Current assets			
Trade and other receivables	10	**4 441**	13 804
Cash and cash equivalents	11	**46 048**	23 501
		50 489	37 305
Total assets		**1 269 883**	1 226 705
EQUITY AND LIABILITIES			
Equity			
Stated capital	12	**632 276**	632 276
Retained earnings		**56 553**	16 524
		688 829	648 800
Non-current liabilities			
Interest-bearing borrowings	13	**502 893**	330 565
Derivative liabilities	15	**2 870**	—
		505 763	330 565
Current liabilities			
Short-term portion of interest-bearing borrowings	13	**52 431**	216 911
Trade and other payables	14	**22 038**	29 865
Provision for audit fees		**598**	564
Derivative liabilities	15	**158**	—
Current taxation liability		**66**	—
		75 291	247 340
Total equity and liabilities		**1 269 883**	1 226 705

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2017

Figures in R'000	Note	2017	For the six months ended 31 Dec 2016
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	16	**(55 297)**	(11 941)
Net operating income		**101 923**	24 321
Other operating expenses	17	**(8 705)**	(3 916)
Operating profit		**93 218**	20 405
Gain on fair value adjustment of investment properties		**29 240**	11 387
Unrealised loss on revaluation of interest-rate swaps		**(3 028)**	—
Net finance charges		**(51 400)**	(15 268)
Finance income	18	**1 591**	171
Finance costs	19	**(52 991)**	(15 439)
Profit before taxation		**68 030**	16 524
Taxation	20	**(57)**	—
Profit and total comprehensive income for the period		**67 973**	16 524
Basic/diluted earnings per share		**102.5**	51.7

Statement of changes in equity

For the year ended 31 December 2017

Figures in R'000	Stated capital	Retained earnings	Total
Balance at 1 July 2016	—	—	—
Total comprehensive income for the period	—	16 524	16 524
Profit and total comprehensive income for the period	—	16 524	16 524
Total comprehensive income for the period	—	16 524	16 524
Transactions with owners	632 276	—	632 276
Issue of share capital	639 464	—	639 464
Capitalised listing fees	(7 188)	—	(7 188)
Balance at 31 December 2016	632 276	16 524	648 800
Total comprehensive income for the year	—	67 973	67 973
Profit and total comprehensive income for the year	—	67 973	67 973
Transactions with owners	—	(27 944)	(27 944)
Dividends	—	(27 944)	(27 944)
Balance at 31 December 2017	**632 276**	**56 553**	**688 829**
Note	12		

	2017	2016
Dividend per share (cents)	**64.04**	5.61
Interim	**29.81**	—
Final*	**34.23**	5.61

* *The final dividend is declared post the financial year end and is therefore a non-adjusting subsequent event (refer to note 30 Subsequent events).*

Statement of cash flows

As at 31 December 2017

Figures in R'000	Note	2017	For the six months ended 31 Dec 2016
Cash flows from operating activities			
Profit and total comprehensive income for the year		**67 973**	16 524
Adjustments for:			
Finance costs		**52 991**	15 439
Income tax		**57**	—
Depreciation of property and equipment		**102**	—
Finance income		**(1 591)**	(171)
Change in fair value of investment property		**(29 240)**	(11 387)
Unrealised loss on interest-rate swap		**3 028**	—
Operating profit before working capital changes		**93 320**	20 405
Working capital changes:			
Decrease/(increase) in trade and other receivables		**9 363**	(13 805)
(Decrease)/increase in trade and other payables		**(8 028)**	30 430
Cash generated by operating activities		**94 655**	37 030
Finance income received		**1 591**	171
Finance costs paid		**(44 012)**	(13 262)
Net cash from operating activities		**52 234**	23 939
Cash flows from investing activities			
Property and equipment acquired	9	**(856)**	—
Capitalisation of transfer and bond costs		**—**	(13 013)
Net cash utilised in investing activities		**(856)**	(13 013)
Cash flows from financing activities			
Proceeds from share issue		**—**	36 999
Interest-bearing borrowings repaid	22	**(887)**	(24 425)
Dividends paid		**(27 944)**	—
Net cash (utilised in)/generated from financing activities		**(28 831)**	12 575
Increase in cash and cash equivalents		**22 547**	23 501
Cash and cash equivalents at beginning of the year		**23 501**	—
Cash and cash equivalents at end of the year	11	**46 048**	23 501

Accounting policies

For the year ended 31 December 2017

1. REPORTING ENTITY

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

2. 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 R1.2 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.

3. STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), the SAICA Financial Reporting Guidelines as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Limited Listings Requirements, and the requirements of the Companies Act.

The financial statements set out on pages 48 to 86 were approved by the Board of Directors on 7 March 2018.

4. BASIS OF MEASUREMENT

The financial statements have been prepared on the historical cost basis, except for investment properties and derivatives that are measured at fair value, as explained in the accounting policies that follow. The presentation currency in the financial statements is South African Rand ("Rand") and all amounts have been rounded to the nearest thousand (R'000).

In the current year, the company has adopted all new and revised IFRSs that are relevant to its operations and effective for reporting periods beginning on or after 1 January 2017. At the date of authorisation of these financial statements for the year ended 31 December 2017, the following IFRSs were adopted:

IAS 7 Statement of Cash Flows

These amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

The amendments state that one way to fulfil the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

Details of the impact of this amendment have been disclosed in note 22 Reconciliation of liabilities arising from financing activities.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

5.1 INVESTMENT PROPERTIES

Investment properties consist of land and buildings held to earn rental income for the long-term and subsequent capital appreciation.

Investment 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.

Accounting policies continued

For the year ended 31 December 2017

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Investment properties are maintained, upgraded and refurbished, where necessary, in order to preserve or improve the capital values 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.

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 two financial years has been to appoint independent valuers to value the entire portfolio.

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.

A gain or loss arising on disposal of investment properties is recognised in profit or loss, measured as the difference between the disposal proceeds and the carrying amount.

5.2 LEASES

The company is party to numerous leasing contracts as the lessor of the properties. 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's 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.

5.3 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.

Financial instruments are initially recognised in the statement of financial position when the company becomes party to the contractual provisions of the instrument. Any gains or losses on these instruments do not affect distributable earnings.

Financial assets and liabilities are initially measured at fair value plus any transaction costs (other than financial instruments that are classified at fair value through profit or loss where the transaction costs incurred are immediately expensed in profit or loss).

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when the company has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial assets

Financial assets are classified into the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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

The financial assets of the company are classified as follows:

› Trade and other receivables are classified as loans and receivables; and

› Cash and cash equivalents are classified as loans and receivables.

Accounting policies continued

For the year ended 31 December 2017

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the investment have been affected. The objective evidence the company considers when determining if a financial asset is impaired, includes indications that the debtor or group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The company assesses all receivables held at amortised cost for impairment at each reporting period end. An impairment loss is calculated as the difference between the asset's carrying value and the present value of the estimated future cash inflows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of the impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss. Financial assets, with the associated allowance, are written off when there is no realistic prospect of future recovery.

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.

Financial liabilities and equity instruments

Debt and equity instruments issued are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting liabilities.

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities. The classification depends on the nature and purpose of the financial liabilities and is determined at the time of initial recognition.

Financial liabilities at fair value through profit or loss include all instruments classless as held-for-trading and those instruments designated as held at fair value through profit or loss. These instruments are initially recorded at fair value with changes in fair value subsequently recognised in profit or loss.

Other financial instruments are subsequently measured at amortised cost using the effective interest method.

The financial liabilities of the company are classified as follows:

- Interest-bearing borrowings are classified as other financial liabilities;
- Trade and other payables are classified as other financial liabilities; and
- Derivative liabilities, comprising interest-rate swaps, are held-for-trading financial instruments measured at fair value through profit or loss.

The company derecognises a financial liability when the company's obligations specified in the contract expire or are discharged or cancelled.

Derivative financial instruments

The company enters into derivative financial instruments such as interest rate swaps, to manage its exposure to interest rate risks. Derivatives are recognised and measured as described above. Further detail on derivative financial instruments is disclosed in note 26 Financial risk management.

5.4 PROPERTY AND EQUIPMENT

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Accounting policies continued

For the year ended 31 December 2017

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Depreciation is provided on the straight-line basis which, it is estimated, will reduce the carrying amount of the property and equipment to their residual values at the end of their useful lives. Items of property and equipment are depreciated from the date that they are installed and available for use.

There is a single category of property and equipment which is depreciated at the following rates:

› Furniture and fittings: 20% to 33.3% per annum

5.5 CASH AND CASH EQUIVALENTS

Cash comprises 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 changes in value, and are held for the purpose of meeting short-term cash commitments rather than investments or other purposes.

5.6 STATED CAPITAL

Ordinary shares are classified as stated capital. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

5.7 DIVIDENDS

Dividends and other distributions to the holders of equity instruments, in their capacity as owners, are recognised directly in equity on the date of declaration.

5.8 TAXATION AND DEFERRED 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 acquisition;

› 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 company 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 on 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 the current tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

Accounting policies continued

For the year ended 31 December 2017

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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.

5.9 REVENUE RECOGNITION

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

5.10 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. The directors evaluated the substance of the lease agreement, and found the company acts as a principal for the collection of service charges and other expenses recoverable from tenants. Income arising from the recovery of operating costs, is recognised in the period in which the compensation becomes receivable.

5.11 OPERATING PROFIT

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

5.12 INTEREST INCOME

Interest income is recognised on an accrual basis using the effective interest method.

5.13 INTEREST EXPENSE

Interest expense is recognised in profit or loss in the period in which it is incurred.

5.14 PROVISIONS

Provisions are recognised when the company has a present obligation 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.

Accounting policies continued

For the year ended 31 December 2017

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

5.15 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;
- Kent Road;
- Kosmosdal;
- Parklands;
- Village Seven, Stone Arch Estate;
- Terenure Estate;
- Theresa Park Estates; and
- Tradewinds.

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, interest-bearing borrowings, 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.

Accounting policies continued

For the year ended 31 December 2017

6. 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 on key estimates and assumptions which have the most significant effect on the financial statements are set out below.

Fair value of investment properties

The portfolio is valued at each reporting date. For the purposes of the 31 December 2017 valuations, all properties were independently valued. By obtaining external valuations from an accredited valuator, management is of the opinion that the risk relating to estimation has been mitigated. Refer to note 8 Investment properties for further information.

7. ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE

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 may have an impact on future financial statements, or those for which the impact has not yet been assessed.

IFRS 9 Financial Instruments

On 24 July 2014, the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 may include changes in the measurement bases of the company's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model.

The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application and early adoption is permitted.

A working group has been set up to assess the impact of the new standard on the financial statements. The group will work towards completing their impact assessments by June 2018.

Accounting policies continued

For the year ended 31 December 2017

7. ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE continued

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The company's current measurement and recognition principles are currently being assessed against the standard. We, however, do not expect a material impact to measurement principles currently applied.

IFRS 16 Leases

The new standard states that lessees should be required to recognise assets and liabilities arising from all leases (with limited exceptions) on the statement of financial position. Lessor accounting has not substantially changed in the new standard. IFRS 16 supersedes existing lease guidance, including IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, and SIC 15 *Operating Leases — Incentives*.

The model reflects that, at the start of the lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. In response to concerns expressed about the cost and complexity to apply the requirements to large volumes of small assets, the IASB decided not to require a lessee to recognise assets and liabilities for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture).

A lessee measures lease liabilities at the present value of future lease payments. A lessee measures lease assets initially at the same amount as lease liabilities, and also includes costs directly related to entering into the lease. Lease assets are amortised in a similar way to other assets such as property, plant and equipment. This approach will result in a more fair presentation of a lessee's assets and liabilities and, together with enhanced disclosure, will provide great transparency of a lessee's financial leverage and capital employed.

The company is currently assessing the impact of this standard but does not expect a material impact to the measurement principles currently applied.

IAS 40 Investment Property: Transfers of Investment Property

The amendment provides a clear definition that transfer is made only when there is an actual change in use, with examples of when an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use.

The amendments are effective retrospectively for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The impact on the financial statements for the company has not yet been determined.

Notes to the financial statements

For the year ended 31 December 2017

Figures in R'000	2017	2016
8. INVESTMENT PROPERTIES		
Opening fair value of investment properties	**1 189 400**	—
Fair value adjustment on investment properties	**29 240**	11 387
Acquisitions at cost	**—**	1 165 000
Capitalised expenditure	**—**	13 013
Closing balance	**1 218 640**	1 189 400

Full details of investment properties owned by the company are contained and disclosed in the property listing on page 89.

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 external independent valuer.

All the properties were valued by Real Insight (Pty) Ltd, 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 R1.2 billion (2016: R1.19 billion) have been used to provide security for loans taken out. Refer to note 13 Interest-bearing borrowings.

FAIR VALUE MEASUREMENT OF INVESTMENT PROPERTIES

Investment properties are valued using a level 3 fair value hierarchy model. Please refer to note 25 Financial risk management.

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 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 and expectations of future increases based on budgets. 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.

Valuation process

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.

Notes to the financial statements continued

For the year ended 31 December 2017

9. PROPERTY AND EQUIPMENT

Figures in R'000	**Cost**	**Accumulated depreciation**	**2017 Carrying value**	Cost	Accumulated depreciation	2016 Carrying value
Owned assets						
Fittings	**856**	**(102)**	**754**	—	—	—
	856	**(102)**	**754**	—	—	—

The carrying amounts of property, plant and equipment can be reconciled as follows:

Figures in R'000	Carrying value at beginning of year	Additions	Disposals	Depreciation	**2017 Carrying value at end of year**
Owned assets					
Fittings	—	856	—	(102)	**754**
	—	856	—	(102)	**754**

Figures in R'000	**2017**	2016
10. TRADE AND OTHER RECEIVABLES		
Trade and other receivables	**2 397**	1 953
Less: Allowance for doubtful debts	**(360)**	(203)
	2 037	1 750
Prepaid expenses	**220**	218
Municipal deposits	**1 533**	1 679
Amounts receivable from related parties	**110**	10 133
Other receivables	**541**	24
	4 441	13 804

Refer to note 25.1 Financial risk management for credit risk management.

11. CASH AND CASH EQUIVALENTS		
Tenant deposits	**13 829**	13 529
Cash on hand	**32 219**	9 972
	46 048	23 501

Cash and cash equivalents of R13.8 million (2016: R13.5 million) relating to tenant deposits, are held in a separate bank account with restrictions on use for regular business operating activities. These balances will be used to repay the liability owing to tenants at the expiry of their lease, subject to certain conditions.

Notes to the financial statements continued

For the year ended 31 December 2017

Figures in R'000	2017	2016
12. EQUITY		
ISSUED CAPITAL (NUMBER)		
Authorised shares		
Ordinary shares of no par value	**3 500 000 000**	3 500 000 000
Ordinary shares issued and fully paid	**—**	—
Stated capital — ordinary shares of no par value	**66 305 662**	66 305 662
	66 305 662	66 305 662
SHARE RECONCILIATION (NUMBER)		
Beginning of the period	**66 305 662**	—
Issued during the year	**—**	66 305 662
Balance at the end of the year	**66 305 662**	66 305 662
RECONCILIATION OF ISSUED STATED CAPITAL		
In issue at beginning of year	**632 276**	—
Private placement	**—**	590 465
Public offering	**—**	49 000
Less capitalised listing costs	**—**	(7 188)
Balance at end of year	**632 276**	632 276

13. INTEREST-BEARING BORROWINGS

NEDBANK LIMITED		
Interest only loan with a variable prime rate, and a maturity date of March 2021. The property 67 on 7th with a carrying value of R91.8 million is provided as security over the bond.	—	50 895
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
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.	—	76 862
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.	—	14 273
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
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.	—	45 472
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.	—	37 278

Notes to the financial statements continued

For the year ended 31 December 2017

Figures in R'000	2017	2016
13. INTEREST-BEARING BORROWINGS continued		
THE STANDARD BANK OF SOUTH AFRICA LIMITED		
Facility A, Tranche 1: Interest only loan with a variable rate at 3-month JIBAR plus 1.85% with a maturity date of 31 January 2020. The properties set out in note 8 Investment properties with a carrying value of R1.2 billion are provided as security over the bond.	**278 143**	—
Facility A, Tranche 2: Interest only loan with a variable rate at 3-month JIBAR plus 2.35% with a maturity date of 31 January 2022. The properties set out in note 8 Investment properties with a carrying value of R1.2 billion are provided as security over the bond.	**278 375**	—
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
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.	—	14 194
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
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
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.	—	49 609
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.	—	20 267
Carrying value of administrative fee on raising of new loan facility capitalised.	**(1 194)**	—
Subtotal	**555 324**	547 476
Less: Short-term portion of interest-bearing borrowings	**(52 431)**	(216 911)
Total	**502 893**	330 565

The debt balance as at 31 December 2016 of R547.476 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 facility is made up as follows:

- Facility A, Tranche 1 of R274 000 000 at 3-month JIBAR plus 1.85% with a maturity date 36 months from date of drawdown;
- Facility A, Tranche 2 of R274 000 000 at 3-month JIBAR plus 2.35% with a maturity date 60 months from date of drawdown; and
- A final facility B of R10 000 000 at prime less 1% with a maturity date 36 months from date of drawdown.

The administrative fee on the raising of the new loan facilities A and B 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 expired 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.

There are no restrictive funding arrangements.

It is the Board's policy to economically hedge at least 50% of the company's exposure to interest rate risk. Please refer to note 25 Financial risk management.

Notes to the financial statements continued

For the year ended 31 December 2017

Figures in R'000	2017	2016
14. TRADE AND OTHER PAYABLES		
Trade payables	**194**	223
Accrued liabilities*	**3 684**	5 461
Income received in advance	**3 749**	792
Provision for municipal deposits	**—**	1 679
Tenant deposits	**13 882**	13 563
Amounts payable to related parties**	**529**	5 508
Accrual for listing costs	**—**	2 639
	22 038	29 865

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

** *Please refer to note 28 Related parties and related party transactions for additional information on the payables to related parties.*

15. DERIVATIVE LIABILITIES		
Non-current liabilities	**2 870**	—
Current liabilities	**158**	—
	3 028	—

Transcend has entered into a number of interest rate swap agreements to mitigate the impact of fluctuating interest rates on the financial performance of the company.

50% of the floating interest rate borrowings has been economically hedged to fixed interest rates.

THE STANDARD BANK OF SOUTH AFRICA LIMITED

Start date	Maturity date	Nominal value	Rate (%)	2017	2016
7 Feb 17	30 Jan 20	137 500	7.62	**1 943**	—
7 Feb 17	30 Jan 18	137 500	7.51	**158**	—
31 Jan 18	31 Jan 19	137 500	7.59	**926**	—
				3 028	—

Please refer to note 25 Financial risk management.

Notes to the financial statements continued

For the year ended 31 December 2017

Figures in R'000	2017	2016
16. PROPERTY OPERATING EXPENSES		
Utilities:	**21 355**	5 353
Water	**3 060**	1 019
Electricity	**6 866**	1 649
Rates	**6 823**	1 580
Sewerage	**2 111**	532
Refuse	**2 495**	573
Bad debts written off	**2 480**	—
Property management fees	**11 116**	2 515
Levies	**5 515**	1 370
Security	**3 615**	895
Repairs and maintenance	**7 239**	707
Payroll	**1 881**	455
Allowance for doubtful debts	**157**	203
Other property operating expenses	**1 939**	443
	55 297	11 941
17. OTHER OPERATING EXPENSES		
Asset management fees	**4 466**	1 116
Professional service fees	**1 583**	1 500
Local travel	**127**	—
Directors' emoluments	**559**	42
Auditors' remuneration	**676**	638
— Audit services	**598**	564
— Non-audit services	**78**	74
Other	**1 192**	620
	8 705	3 916
18. FINANCE INCOME		
Bank interest	**1 591**	171
	1 591	171
19. FINANCE CHARGES		
Interest on bank loans	**52 962**	15 439
Other	**29**	—
	52 991	15 439

Notes to the financial statements continued

For the year ended 31 December 2017

Figures in R'000	2017	2016
20. TAXATION		
Current taxation	—	—
Adjustment to prior year	57	—
Income taxation for the year	57	—
Reconciliation between accounting profit and tax expense		
Profit before taxation	68 030	16 524
Tax at the applicable tax rate of 28%	19 048	4 627
Tax effect of adjustments on taxable income		
Non-deductible share registration expenses and sponsorship costs	46	491
Unrealised loss on interest-rate swaps	848	—
Fair value adjustments	(8 187)	(3 188)
Income received in advance	828	222
Audit fee provision	10	158
Provision for doubtful debts	33	43
Section 24C Allowance for future expenditure	(735)	—
Prepaid expenses	(1)	(61)
Prior year under provision of current taxation	57	—
Qualifying distribution	(11 890)	(2 290)
	57	0

Transcend was 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 is taxed at 28% and any dividends paid from these taxable profits, will be deductible at 28% by means of a qualifying distribution deduction.

21. EARNINGS AND HEADLINE EARNINGS

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 ('000)	66 306	66 306
Weighted average number of shares in issue ('000)	66 306	31 962
Basic and diluted earnings per share (cents)	102.51	51.70
Headline and diluted headline earnings per share (cents)	58.42	16.07
Net asset value per share (cents)[1]	10.39	9.78

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

Notes to the financial statements continued

For the year ended 31 December 2017

Figures in R'000	**2017**	2016
22. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES		
Opening balance of liabilities	**547 476**	—
Cash flow movements:	**(887)**	(24 425)
Interest payments	**43 351**	13 258
Cancellation fee	**1 534**	—
Drawdown of interest-bearing borrowings	**—**	4 257
Bond repayments	**(45 772)**	(41 940)
Non-cash flow movements:	**8 735**	571 901
Interest accrued	**8 735**	2 177
Interest-bearing borrowings raised	**—**	569 724
Closing balance of liabilities	**555 324**	547 476

23. MINIMUM LEASE PAYMENTS RECEIVABLE

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

Receivable within one year	**7 190**	5 752

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.

Please refer to note 5.2 Leases for a description of Transcend's leasing arrangements.

Notes to the financial statements continued

For the year ended 31 December 2017

24. OPERATING SEGMENTS

Figures in R'000	67 on 7th	Acacia Place	Alpine Mews	Ekhaya Fleurhof
2017				
Rental income from investment properties	10 665	15 641	4 648	8 100
Recoveries of operating costs from tenants	119	2 878	365	660
Revenue	10 784	18 519	5 013	8 760
Property operating expenses	(3 289)	(7 293)	(1 748)	(2 195)
Net operating income	7 495	11 226	3 265	6 565
Other operating expenses	(41)	(45)	(54)	(18)
Operating profit	7 454	11 181	3 211	6 547
Unrealised loss on revaluation of interest-rate swaps	—	—	—	—
Gain on fair value adjustment of investment property	5 700	(6 300)	4 100	4 500
Net finance charges	—	(18)	1	—
Finance costs	(1)	(19)	—	—
Finance income	1	1	1	—
Profit before taxation	13 154	4 863	7 312	11 047
Taxation	—	—	—	—
Profit and total comprehensive income for the year	13 154	4 863	7 312	11 047
Investment properties	97 500	127 500	36 200	69 500
Other assets	1 102	3 185	453	748
Interest-bearing borrowings	—	—	—	—

Figures in R'000	Ekhaya Jabulani	Jackalberry Close	Kent Road	Kosmosdal
Rental income from investment properties	11 069	12 167	4 163	15 926
Recoveries of operating costs from tenants	1 402	153	335	1 107
Revenue	12 471	12 320	4 498	17 033
Property operating expenses	(4 567)	(3 593)	(1 509)	(5 525)
Net operating income	7 904	8 727	2 989	11 508
Other operating expenses	(79)	(46)	5	(71)
Operating profit	7 825	8 681	2 994	11 437
Unrealised loss on revaluation of interest-rate swaps	—	—	—	—
Gain on fair value adjustment of investment property	2 000	(100)	1 300	2 600
Net finance charges	—	(6)	—	—
Finance costs	—	(6)	—	—
Finance income	—	—	—	—
Profit before taxation	9 825	8 575	4 294	14 037
Taxation	—	—	—	—
Profit and total comprehensive income for the year	9 825	8 575	4 294	14 037
Investment properties	90 600	112 300	35 100	138 500
Other assets	1 030	1 427	408	1 651
Interest-bearing borrowings	—	—	—	—

Notes to the financial statements continued

For the year ended 31 December 2017

24. OPERATING SEGMENTS continued

Figures in R'000	Parklands	Village Seven Stone Arch Estate	Terenure Estate	Theresa Park Estates
2017				
Rental income from investment properties	12 478	6 936	25 308	11 861
Recoveries of operating costs from tenants	709	1 070	2 843	311
Revenue	13 187	8 006	28 151	12 172
Property operating expenses	(5 634)	(3 495)	(9 350)	(4 765)
Net operating income	7 553	4 511	18 801	7 407
Other operating expenses	(521)	(33)	(147)	(3)
Operating profit	7 032	4 478	18 654	7 404
Unrealised loss on revaluation of interest-rate swaps	—	—	—	—
Gain on fair value adjustment of investment property	4 600	200	4 200	5 150
Net finance charges	3	—	(4)	—
Finance costs	—	—	(3)	—
Finance income	3	—	(1)	—
Profit before taxation	11 635	4 678	22 850	12 554
Taxation	—	—	—	—
Profit and total comprehensive income for the year	11 635	4 678	22 850	12 554
Investment properties	98 100	55 100	214 200	98 000
Other assets	1 818	770	2 348	1 337
Interest-bearing borrowings	—	—	—	—

Figures in R'000	Tradewinds	Reconciliation	Total
Rental income from investment properties	5 822	—	144 784
Recoveries of operating costs from tenants	484	—	12 436
Revenue	6 306	—	157 220
Property operating expenses	(2 334)	—	(55 297)
Net operating income	3 972	—	101 923
Other operating expenses	—	(7 652)	(8 705)
Operating profit	3 972	(7 652)	93 218
Unrealised loss on revaluation of interest-rate swaps	—	(3 028)	(3 028)
Gain on fair value adjustment of investment property	1 290	—	29 240
Net finance charges	1	(51 377)	(51 400)
Finance costs	—	(52 962)	(52 991)
Finance income	1	1 585	1 591
Profit before taxation	5 263	(62 057)	68 030
Taxation	—	(57)	(57)
Profit and total comprehensive income for the year	5 263	(62 114)	67 973
Investment properties	46 040	—	1 218 640
Other assets	743	34 223	51 243
Interest-bearing borrowings	—	555 324	555 324

Notes to the financial statements continued

For the year ended 31 December 2017

24. OPERATING SEGMENTS continued

Figures in R'000	67 on 7th	Acacia Place	Alpine Mews	Ekhaya Fleurhof
2016				
Rental income from investment properties	2 534	2 778	1 038	1 917
Recoveries of operating costs from tenants	6	623	12	122
Revenue	2 540	3 401	1 050	2 039
Property operating expenses	(679)	(1 409)	(386)	(479)
Net operating income	1 861	1 992	664	1 560
Other operating expenses				
Operating profit	1 861	1 992	664	1 560
Gain on fair value adjustment of investment property	236	(146)	98	1 238
Net finance charges	(1 316)	(2 061)	(407)	(819)
Finance costs	(1 316)	(2 061)	(407)	(819)
Finance income	—	—	—	—
Profit before taxation	781	(215)	355	1 979
Taxation	—	—	—	—
Profit and total comprehensive income for the year	781	(215)	355	1 979
Investment properties	91 800	133 800	32 100	65 000
Other assets	—	—	—	—
Interest-bearing borrowings	50 895	99 876	14 273	31 403

Figures in R'000	Ekhaya Jabulani	Jackalberry Close	Kent Road	Kosmosdal
Rental income from investment properties	2 811	3 011	996	3 918
Recoveries of operating costs from tenants	209	5	83	252
Revenue	3 020	3 016	1 079	4 170
Property operating expenses	(1 188)	(814)	(348)	(1 166)
Net operating income	1 832	2 202	731	3 004
Other operating expenses				
Operating profit	1 832	2 202	731	3 004
Gain on fair value adjustment of investment property	2 910	623	386	(1 178)
Net finance charges	(1 186)	(1 313)	(401)	(1 660)
Finance costs	(1 186)	(1 313)	(401)	(1 660)
Finance income	—	—	—	—
Profit before taxation	3 556	1 512	716	166
Taxation	—	—	—	—
Profit and total comprehensive income for the year	3 556	1 512	716	166
Investment properties	88 600	112 400	33 800	135 900
Other assets	—	—	—	—
Interest-bearing borrowings	45 471	23 156	14 194	57 354

Notes to the financial statements continued

For the year ended 31 December 2017

24. OPERATING SEGMENTS continued

Figures in R'000	Parklands	Village Seven Stone Arch Estate	Terenure Estate	Theresa Park Estates
2016				
Rental income from investment properties	2 967	1 653	6 218	2 768
Recoveries of operating costs from tenants	52	213	569	22
Revenue	3 019	1 866	6 787	2 790
Property operating expenses	(985)	(770)	(2 084)	(1 097)
Net operating income	2 034	1 096	4 703	1 693
Other operating expenses				
Operating profit	2 034	1 096	4 703	1 693
Gain on fair value adjustment of investment property	4 180	1 374	6 516	(4 707)
Net finance charges	(972)	(751)	(2 595)	(1 407)
Finance costs	(972)	(751)	(2 595)	(1 407)
Finance income	—	—	—	—
Profit before taxation	5 242	1 719	8 624	(4 421)
Taxation	—	—	—	—
Profit and total comprehensive income for the year	5 242	1 719	8 624	(4 421)
Investment properties	93 500	54 900	210 000	92 850
Other assets	—	—	—	—
Interest-bearing borrowings	37 278	26 837	76 862	49 609

Figures in R'000	Tradewinds	Reconciliation	Total
Rental income from investment properties	1 381	—	33 990
Recoveries of operating costs from tenants	104	—	2 272
Revenue	1 485	—	36 262
Property operating expenses	(536)	—	(11 941)
Net operating income	949	—	24 321
Other operating expenses		(3 916)	(3 916)
Operating profit	949	(3 916)	20 405
Gain on fair value adjustment of investment property	(143)	—	11 387
Net finance charges	(551)	171	(15 268)
Finance costs	(551)	—	(15 439)
Finance income	—	171	171
Profit before taxation	255	(3 745)	16 524
Taxation	—	—	—
Profit and total comprehensive income for the year	255	(3 745)	16 524
Investment properties	44 750	—	1 189 400
Other assets	—	37 305	37 305
Interest-bearing borrowings	20 268	—	547 476

Notes to the financial statements continued

For the year ended 31 December 2017

24. OPERATING SEGMENTS continued

Figures in R'000	2017	2016
RECONCILIATION OF PROFIT FOR THE YEAR TO DISTRIBUTABLE EARNINGS		
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 fees expensed	**—**	1 752
Surplus working capital available for distribution	**703**	1 290
Clean-out dividend*	**—**	(4 461)
Distributable income for the year	**42 464**	3 718
Interim	**19 765**	—
Final	**22 699**	3 718
Actual number of shares in issue ('000)	**66 306**	66 306
Distribution per share (cents)	**64.04**	5.61
Interim	**29.81**	—
Final	**34.23**	5.61

* *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.*

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.

25. FINANCIAL RISK MANAGEMENT

The company's financial risk management objective is to manage the capital and financial risk exposure so that the company continues as a going concern and minimises adverse effects of financial risks on returns.

The company has exposure to the following risks from its use of financial instruments:

› Credit risk;
› Liquidity risk; and
› Market 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.

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.

Notes to the financial statements continued

For the year ended 31 December 2017

25. FINANCIAL RISK MANAGEMENT continued

The company has classified its financial assets in the following categories:

Figures in R'000	Loans and receivables	Total
2017		
Current financial assets		
Trade receivables (refer note 10)	**4 221**	**4 221**
Cash and cash equivalents (refer note 11)	**46 048**	**46 048**
2016		
Current financial assets		
Trade receivables (refer note 10)	13 586	13 586
Cash and cash equivalents (refer note 11)	23 501	23 501

The company has classified its financial liabilities in the following categories:

Figures in R'000	Fair value through profit loss	Other financial liabilities	Total
2017			
Non-current financial liabilities			
Interest-bearing borrowings (refer note 13)	**—**	**502 893**	**502 893**
Derivative liabilities (refer note 15)	**2 870**	**—**	**2 870**
Current financial liabilities			
Trade payables (refer note 14)	**—**	**18 354**	**18 354**
Current portion of interest-bearing borrowings (refer note 13)	**—**	**52 431**	**52 431**
Derivative liabilities (refer note 15)	**158**		**158**
2016			
Non-current financial liabilities			
Interest-bearing borrowings (refer note 13)	—	330 565	330 565
Current financial liabilities			
Trade payables (refer note 14)	—	21 765	21 765
Current portion of interest-bearing borrowings (refer note 13)	—	216 911	216 911

Except for the derivative liabilities, all other financial instruments are carried at amortised cost as at 31 December 2017 and 2016. The fair value of derivative liabilities is set out in note 15 Derivative liabilities.

The company is exposed to credit risk and liquidity risk arising in the normal course of its business and financial instruments. The company's risk management objectives, policies and processes mainly focus on minimising the potential adverse effects of these risks on its financial performance and position by closely monitoring the individual exposure.

Notes to the financial statements continued

For the year ended 31 December 2017

25. FINANCIAL RISK MANAGEMENT continued

25.1 CREDIT RISK

Credit risk is the risk of financial loss to the company if a tenant 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, in the majority of cases, the provision of 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 assessed for impairment at year-end and management does not consider there to be any credit risk exposure that is not already covered in the impairment.

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.

At 31 December 2017, the company has no concentration of risk and the maximum exposure to credit risk is represented by the carrying amount of each financial asset.

Figures in R'000	**2017**	2016
Ageing of impaired trade receivables		
Not more than 30 days	**26**	87
More than 30 days but not more than 60 days	**63**	98
More than 60 days but not more than 90 days	**271**	18
	360	203
Movement on the allowance for doubtful debts:		
Balance as at 1 January 2016	**203**	—
Impairment losses recognised during the year	**2 637**	203
Amounts written off	**(2 480)**	—
Balance as at 31 December 2017	**360**	203

The trade receivable write-offs are included in property operating costs.

Amounts charged to the allowance will be written off when all avenues for recovery have been exhausted and there is no expectation that any further cash will be received.

At the reporting date, no geographic area, rental sector or size of tenant had been identified as a specific credit risk.

Receivables past due but not impaired

Receivables are considered to be "past due" when they are uncollected one day or more beyond their contractual due date.

As at 31 December 2017, trade receivables of R1.8 million (2016: R1.6 million), were considered past due but not impaired. These include varied customers with no recent history of payment default.

Notes to the financial statements continued

For the year ended 31 December 2017

25. FINANCIAL RISK MANAGEMENT continued

Figures in R'000	2017	2016
Ageing of trade receivables past due but not impaired		
Past due up to:		
— 30 days	**548**	1 412
— 31 to 60 days	**649**	158
— 61 to 90 days	**545**	23
— 91 to 120 days	**9**	—
	1 751	1 593

25.2 LIQUIDITY RISK

The company is exposed to liquidity risk on financial liabilities. It manages its funds conservatively by maintaining a comfortable level of cash and cash equivalents in order to meet continuous operational needs. This risk is further managed by regularly monitoring cash flows.

A maturity analysis of the company's financial liabilities is set out in the table below:

Figures in R'000	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
2017				
Interest-bearing borrowings (refer note 13)	**52 431**	**712 332**	**—**	**764 763**
Trade and other payables (refer note 14)	**22 038**	**—**	**—**	**22 038**
Derivative liabilities (refer note 15)	**158**	**2 870**	**—**	**3 028**
2016				
Interest-bearing borrowings (refer note 13)	216 911	485 682	136 825	839 418
Trade and other payables (refer note 14)	29 865	—	—	29 865

25.3 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 2017, 50% of the company's interest rate exposure was hedged 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.

Sensitivity analysis

At 31 December 2017, if interest rates at that date had been 100 basis points higher/(lower) with all other variables held constant, the company's profit for the year and retained earnings would have been R2.5 million (2016: R1.4 million) higher/(lower).

The sensitivity analysis has been prepared with the assumption that the change in interest rates had occurred at the reporting date and had been applied to the exposure to interest rate risk for the relevant financial instruments in existence at that date. The changes in interest rate represent management's assessment of a reasonably possible change in interest rates at that date over the period until the next reporting date.

The analysis is prepared on the same basis for 2016.

Notes to the financial statements continued

For the year ended 31 December 2017

26. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The estimated fair values of financial assets and financial liabilities at amortised cost as at 31 December 2017 have been determined using available market information and appropriate valuation methodologies. The fair value of all financial instruments at amortised cost equals their carrying value, either because of the short-term nature and normal trade terms thereof, or the market-related interest rates attached to it.

IFRS 13 requires that an entity disclose for each class of financial instrument 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.

The fair value hierarchy reflects the significance of the inputs used in making fair value measurements.

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

The table below analyses financial instruments and investment property carried at fair value.

The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical financial 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).

Figures in R'000	Fair value	Level 1	Level 2	Level 3
YEAR ENDED 31 DECEMBER 2017				
Assets				
Investment properties	1 218 640	—	—	1 218 640
	1 218 640		—	1 218 640
Liabilities				
Derivative liabilities	(3 028)	—	(3 028)	—
	(3 028)	—	(3 028)	—

DETAILS OF VALUATION TECHNIQUES

Investment property

Refer to note 8 Investment properties for valuation techniques.

Derivative liabilities

Interest rate swaps

The fair value 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 similar sources, which reflects the relevant benchmark interbank rate used by market participants for this purposes when pricing interest rate swaps. The fair value estimate is subject to a credit risk adjustment that reflects the credit risk of the group and of the counterparty. This is calculated based on credit spreads derived from current credit default swap or bond prices.

TRANSFERS BETWEEN LEVEL 1, LEVEL 2 AND LEVEL 3

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

Notes to the financial statements continued

For the year ended 31 December 2017

27. 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 previous financial period ended 31 December 2016.

The Board's policy is to maintain a strong capital base, comprising its shareholders' interests, 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 distribution 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.

28. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

Transcend is 11% owned by public shareholding and 89% held by the South African Workforce Housing Fund PVE (SA), a South African en commandite partnership duly represented by its general partner, South African Workforce Housing Fund (SA GP) (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") 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.

An asset management agreement was entered into by Transcend and IHS AM and became effective 1 October 2016. In turn, IHS AM outsources certain functions to IHS (RF) (Pty) Ltd 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"), 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.

Transcend does not have any subsidiaries.

Notes to the financial statements continued

For the year ended 31 December 2017

28. RELATED PARTIES AND RELATED PARTY TRANSACTIONS continued

Figures in R'000	Amounts owed (to)/by the related party at year-end 2017	2016
Asset management fees paid to IHS AM	**4 466**	1 116
Property management fees paid to IHS PM	**11 116**	2 515
Management fees owing to IHS AM	**(372)**	(1 116)
Amounts receivable from related parties	**110**	10 133
South African Workforce Housing Fund SA Rental 4 Trust	**—**	6 827
South African Workforce Housing Fund SA Rental 3 Trust	**—**	1 427
South African Workforce Housing Fund SA 1	**110**	830
Sugar Creek Trading 289 (Pty) Ltd	**—**	676
Clidet NO 947 (Pty) Ltd	**—**	360
Business Venture Investments No 1486 (Pty) Ltd	**—**	12
Amount owing to related parties:	**(153)**	(5 508)
IHS	**(153)**	—
South African Workforce Housing Fund SA Rental 3 Trust	**—**	(2 616)
Business Venture Investments No 1486 (Pty) Ltd	**—**	(1 773)
South African Workforce Housing Fund SA Rental 4 Trust	**—**	(882)
Clidet NO 947 (Pty) Ltd	**—**	(236)

29. DIRECTORS' REMUNERATION AND BENEFITS

Figures in R'000	Basic salaries	Fees paid to directors for services	Bonuses and other performance payments	Total
2017				
Executive directors				
Rob Wesselo[1]	**4 993**	**—**	**1 956**	**6 949**
Solly Mboweni[2]	**2 510**	**—**	**714**	**3 224**
Dave Lange[3]	**1 084**	**—**	**381**	**1 466**
Non-executive directors				
Robert Emslie	**—**	**205**	**—**	**205**
Cathal Conaty[4]	**5 559**	**—**	**1 663**	**7 221**
Michael Falcone[5]	**7 382**	**—**	**15 611**	**22 993**
Faith Khanyile	**—**	**180**	**—**	**180**
Michael Aitken	**—**	**180**	**—**	**180**
Total	**21 528**	**565**	**20 325**	**42 418**

Notes to the financial statements continued

For the year ended 31 December 2017

29. DIRECTORS' REMUNERATION AND BENEFITS continued

Figures in R'000	Basic salaries	Fees paid to directors for services	Bonuses and other performance payments	Total
2016				
Executive directors				
Rob Wesselo[1]	5 538	—	1 974	7 512
Solly Mboweni[2]	2 372	—	686	3 058
Dave Lange[3]	946	—	312	1 258
Non-executive directors				
Robert Emslie	—	14	—	14
Cathal Conaty[4]	5 538	—	1 974	7 512
Michael Falcone[5]	8 196	—	17 333	25 529
Faith Khanyile	—	14	—	14
Michael Aitken	—	14	—	14
Total	22 590	42	22 279	44 911

An average exchange rate of USD1:R13.30 (2016: USD1:R14.77) was used in the table above to convert US dollar denominated salaries into South African Rand.

Directors fees paid to independent non-executive directors in 2017 represent the total fees received by these directors for their services to Transcend for the 12 months that the company was listed in 2017, and for one month in 2016. It should be noted that these fees are paid directly by Transcend.

1 *Rob Wesselo received remuneration of R7 million in 2017 (2016: R7.5 million) from 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 roughly 25% of his time on Transcend, which would have equated to R1.7 million (2016: R1.9 million) of his total remuneration received from IHS.*

2 *Solly Mboweni received remuneration of R3.2 million in 2017 (2016: R3 million) from 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 roughly 25% of his time on Transcend, which would have equated to R0.81 million (2016: R0.76 million) of his total remuneration received from IHS.*

3 *Dave Lange received remuneration of R1.5 million in 2017 from IHS for his services as CFO of Transcend. During 2016 Dave received R1.3 million from 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 received in 2016 relates to his services to Transcend as CFO from that date.*

4 *Cathal Conaty received remuneration of R7.2 million in 2017 (2016: R7.5 million) from International Housing Solutions S.a.r.l ("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 R0.36 million (2016: R0.38 million) of his total remuneration received from IHS S.a.r.l.*

5 *Mike Falcone received remuneration of R23.0 million in 2017 (2016: R25.5 million) 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 R1.2 million (2016: R1.3 million) of his total remuneration received from MMA.*

Notes to the financial statements continued

For the year ended 31 December 2017

29. DIRECTORS' REMUNERATION AND BENEFITS continued

There are two directors with a direct interest in Transcend shares in issue as at 31 December 2017 as disclosed below:

	Beneficially held — directly %	Number of shares	Beneficially held — indirectly %	Number of shares	Total %	Number of shares
2017						
Cathal Conaty	**—**	**—**	**0.0021**	**1 405**	**0.0021**	**1 405**
Mike Falcone	**—**	**—**	**0.0808**	**53 583**	**0.0808**	**53 583**
Robert Emslie	**0.0005**	**300**	**0.2909**	**192 887**	**0.2914**	**193 187**
Rob Wesselo	**0.0036**	**2 400**	**—**	**—**	**0.0036**	**2 400**
	0.0041	**2 700**	**0.3738**	**247 875**	**0.3779**	**250 575**
2016						
Cathal Conaty	—	—	0.0013	887	—	887
Mike Falcone	—	—	0.0697	46 226	—	46 226
Robert Emslie	0.0005	300	0.1502	99 600	0.1507	99 900
Rob Wesselo	0.0015	1 000	—	—	0.0015	1 000
	0.0020	1 300	0.2213	146 713	0.2232	148 013

There has been no change in directors' interests between 31 December 2017 and the date of the approval of the annual financial statements.

30. SUBSEQUENT EVENTS

Declaration of dividend after reporting date

In line with IAS 10 *Events after reporting date*, the declaration of the final dividend of 34.23 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.

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.

31. GOING CONCERN

The company earned a net profit for the year ended 31 December 2017 of R67.9 million (2016: R16.5 million). As of that date, the company had a positive net asset value, although its current liabilities exceeded its current assets by R24.8 million (2016: R210.0 million). This is purely as a result of payments on the long-term borrowing 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 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. The directors have satisfied themselves that the group is in a sound financial position and that it has access to sufficient funding facilities to meet its foreseeable cash requirements.

Portfolio summary

SECTORAL PROFILE

The entire property portfolio comprises 2 472 residential units, with a combined gross lettable area ("GLA") of 124 634m², and its sector is classified as being residential property.

GEOGRAPHICAL PROFILE

	By number of units	By GLA (m²)	By gross rental (GR) (%)
PROVINCE			
Gauteng	1 870	99 707	77
Mpumalanga	325	9 971	12
Western Cape	277	14 956	11
Total	2 472	124 634	100

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; and
C: other.

The entire tenant profile is classified as "C", comprising 2 472 individual residential tenants as at 31 December 2017. These tenants have an average occupancy period of approximately 13 months across the portfolio of 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 (%)
RESIDENTIAL — LEASE EXPIRY				
Vacancy	179	7.2	7.4	6.8
Monthly	1 451	58.7	58.7	59.6
30 June 2018	477	19.3	19.2	19.0
31 December 2018	363	14.7	14.6	14.5
31 December 2019	2	0.1	0.1	0.1
	2 472	100.0	100.0	100.0

Portfolio summary continued

VACANCY PROFILE

An average vacancy rate of 4.5% (2016: 6.9%) for stabilised rental properties in the portfolio was achieved. 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. The vacancy profile by GLA and number of units is set out below:

	Number of vacant units	Units (%)	GLA (%)
UNIT TYPE			
One bedroom + one bathroom	0	0.0	0.0
Two bedroom + one bathroom	158	6.39	5.93
Two bedroom + two bathroom	18	0.73	0.85
Three bedroom + two bathroom	4	0.16	0.24
Portfolio vacancy	180	7.28	7.00

Based on existing leases as at 31 December 2017.

WEIGHTED AVERAGE RENTAL AND ESCALATIONS

WEIGHTED AVERAGE RENTAL

	R/m²	R/unit
SECTOR		
Residential	107	5 170

The projected weighted average escalation for the portfolio, from 2017 to 2018, is 3% to 4.5% (2016: 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 8.9% (2016: 8.6%).

Property listing

Property name	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	97 500 000	1 Oct 16	8 478	204
Acacia Place	Mara Street, Witbank, Mpumalanga	127 500 000	1 Oct 16	16 250	325
Alpine Mews	72 Forest Road, Eersterivier, Western Cape	36 200 000	1 Oct 16	4 005	90
Ekhaya Fleurhof	40 Salinga Crescent, Fleurhof Ext 3, Gauteng	69 500 000	1 Oct 16	6 642	162
Ekhaya Jabulani	2342 Dikgathlehong Street, Jabulani, Gauteng	90 600 000	1 Oct 16	10 004	244
Jackalberry Close	23 Sydney Road, Jansen Park, Gauteng	112 300 000	1 Oct 16	10 713	252
Kensington Place	26 Dover Street, Ferndale, Gauteng	35 100 000	1 Oct 16	2 376	56
Molware	Corner Rietspruit Road & Morithi Street, Kosmosdal, Gauteng	138 500 000	1 Oct 16	11 937	252
Parklands	Along Southwark & Dartford Street, Parklands, Western Cape	98 100 000	1 Oct 16	10 044	187
Village Seven, Stone Arch Village	19 Brookhill Road, Gauteng	55 100 000	1 Oct 16	6 039	114
Terenure Estate	Corner Oranjerivier & Bergrivier drive, Terenure Ext 70, Gauteng	214 200 000	1 Oct 16	22 028	350
Theresa Park Estates	60 Burning Bush Street, Theresa Park Ext 45, Gauteng	98 000 000	1 Oct 16	12 388	242
Tradewinds	255 Kent Avenue, Ferndale, Gauteng	46 040 000	1 Oct 16	3 730	85
Total		**1 218 640 000**		**124 634**	**2 563****

* *As valued by the external independent property valuer.*
** *This is the total number of units at the properties, of which 2 472 are owned by Transcend.*

Property name	One bed	Two bed	Three bed	Total number of units owned by Transcend	Number of vacant units	Vacancy (% of units as at 31 Dec 2017)	Weighted average rental per square metre (R/m²)
67 on 7th	—	157	—	157	7	4.46	107
Acacia Place	—	325	—	325	78	24.00	92
Alpine Mews	—	90	—	90	1	1.11	99
Ekhaya Fleurhof	—	162	—	162	3	1.85	102
Ekhaya Jabulani	—	244	—	244	13	5.33	100
Jackalberry Close	—	208	—	208	29	13.94	101
Kensington Place	—	56	—	56	2	3.57	147
Molware	—	252	—	252	4	1.59	116
Parklands	—	187	—	187	4	2.14	106
Village Seven, Stone Arch Village	—	114	—	114	2	1.75	100
Terenure Estate	—	282	68	350	25	7.14	102
Theresa Park Estates	68	174	—	242	12	4.96	84
Tradewinds	85	—	—	85	—	—	132
Total	**153**	**2 251**	**68**	**2 472**	**180**	**7.28**	**107**

Shareholders' information

Shareholders' profile and JSE information as at 31 December 2017

	Number of holders	Number of shares	% of capital
Non-public	4	59 046 443	89.05
Public	111	7 259 219	10.95
Total	**115**	**66 305 662**	**100.00**

DISTRIBUTION OF SHAREHOLDERS

	Number of holders	% of total shareholders	Number of shares	% of total issued share capital
Individuals	99	86.08	318 894	0.48
Investment companies	5	4.35	199 506	0.30
Other corporations	9	7.83	65 778 686	99.21
Trusts	2	1.74	8 576	0.01
Total	**115**	**100.00**	**66 305 662**	**100.00**

RANGE ANALYSIS AT 31 DECEMBER 2017

	Number of holders	% of total shareholders	Number of shares	% of total issued share capital
1 – 1 000 shares	31	26.95	8 337	0.01
1 001 – 10 000 shares	72	62.61	235 754	0.36
10 001 – 100 000 shares	10	8.70	415 128	0.63
100 001 – 1 000 000 shares	—	—	—	0.00
1 000 0001 shares and over	2	1.74	65 646 443	99.00
Total	**115**	**100.00**	**66 305 662**	**100.00**

Shareholders' information continued

Shareholders' profile and JSE information as at 31 December 2017

The following shareholders hold, beneficially directly or indirectly, at 31 December 2017 in excess of 5% of the issued share capital:

	Number of shares	% of capital
SAWHF PVE (SA)	59 046 443	89.05
SA Corporate Real Estate Fund	6 600 000	9.95

SHARE PRICE INFORMATION

Opening price on 1 January 2017	R8.00
Closing price on 31 December 2017	R6.10
Closing high for period	R8.00
Closing low for period	R5.60
Number of shares in issue	66 305 662
Volume traded during period	158 438
Ratio of volume traded to shares issued (%)	0.24
Rand value traded during the period	R940 297
Market capitalisation at 31 December 2017	R404 464 538

Notice of annual general meeting 2018

TRANSCEND RESIDENTIAL PROPERTY FUND LIMITED

Registration number: 2016/277183/06

JSE share code: TPF ISIN: ZAE000227765

(Approved as a REIT by the JSE)

("Transcend" or "the company")

Notice is hereby given that the company's second annual general meeting ("AGM" or "the meeting") will be held at 54 Peter Place, Peter Place Office Park, Block C, Cardiff House, Bryanston, Johannesburg on Tuesday, 29 May 2018 at 15:00.

Shareholders entitled to receive this notice are shareholders as recorded in the company's register on Thursday, 26 April 2018. 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 Friday, 18 May 2018. Accordingly, the last day to trade is Tuesday, 15 May 2018.

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 purposes of considering the resolutions to be proposed at the meeting shall consist of three shareholders of the company personally present 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 and:

- must contact the company secretary (by email at kwaldeck@corpstat.co.za) by no later than 10:00 on **Friday, 25 May 2018** 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; and
- 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 ended 31 December 2017 and to consider, and 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 "Companies Act"). The complete set of the annual financial statements is available on **www.transcendproperty.co.za**.

Ordinary resolutions

With the exception of ordinary resolution number 4, which, in order to be adopted and in terms of the JSE Limited ("JSE") Listings Requirements, requires more than 75% (seventy five percent) of voting rights exercised in favour, the percentage required for the ordinary resolutions below to be adopted is more than 50% (fifty percent) of the voting rights exercised in favour of each resolution.

1. Ordinary resolution number 1: Re-election and election of directors

To individually elect the following directors (ordinary resolutions 1.1 to 1.4). The company's Board of Directors (the "Board") recommends the election of the retiring directors in terms of the company's memorandum of incorporation ("MOI"), who, being eligible, make themselves available for re-election or election, as the case may be:

1.1 Ordinary resolution 1.1: Re-election of RR Emslie as an independent non-executive director.

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: Confirmation of election of M Kritzinger as an executive director.

Refer to pages 16 to 18 of the integrated annual report for a profile of each director.

Explanatory note: The reason for proposing ordinary resolutions number 1.1 to 1.3 is that clause 25.12.2 of the MOI requires that one-third of the directors retire at each annual general meeting of the company.

The reason for proposing ordinary resolution number 1.4 is that clauses 25.3 and 25.4 of the MOI require the appointment of a director by the Board of Directors to be confirmed at the next shareholders' meeting.

2. Ordinary resolution number 2: Election of Audit and Risk Committee members

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: Subject to the passing of ordinary resolution number 1.1, the 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: Subject to the passing of ordinary resolution number 1.2, the election of MS Aitken as a member of the Audit and Risk Committee.

2.3 Ordinary resolution 2.3: Subject to the passing of ordinary resolution number 1.3, the election of FN Khanyile as a member of the Audit and Risk Committee.

Refer to pages 16 to 18 of this notice for a brief profile 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 the King Report on Corporate Governance for South Africa, 2016 ("King IV") and the requirements of the Companies Act. In terms of the aforementioned requirements, an Audit Committee must comprise a minimum of three members, all of whom should be independent non-executive directors of the company. Furthermore, in terms of the Companies Act 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 aforegoing, the Board recommends that the nominated directors be members of the Audit and Risk Committee.

3. Ordinary resolution number 3: Appointment of auditors

To approve the re-appointment of KPMG Incorporated 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 re-appointed at each annual general meeting, in compliance with section 90 of the Companies Act. The Audit and Risk Committee and the Board have evaluated the performance of KPMG Incorporated (in accordance with paragraph 3.84(h)(iii) of the JSE Listings Requirements) and recommend their reappointment as the independent external auditors of the company.

4. Ordinary resolution number 4: General authority to issue shares for cash

To authorise the directors of the company, in accordance with the MOI, the Companies Act and the JSE Listings Requirements, to allot and issue for cash, as and when they deem fit, the ordinary shares in the authorised but unissued share capital of the company, subject to the following conditions:

- the authority is valid until the company's next annual general meeting, 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 date of the notice of this AGM, such number being 33 152 832 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) or more 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 ordinary resolution is at least 75% (seventy five percent) of the voting rights exercised in favour of the resolution 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

To authorise and empower any director or the company secretary, 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.

6. Ordinary resolution 6: Specific authority to issue shares pursuant to a reinvestment option

To authorise the directors of the company, subject to the provisions of the Companies Act, the company's MOI and the JSE Listings Requirements by way of a specific standing authority to issue shares, as and when they deem appropriate, for the exclusive purpose of affording shareholders opportunities from time to time to elect to reinvest their distributions in new shares of the company pursuant to a reinvestment option.

7. Non-binding resolution number 1: Endorsement of remuneration policy

For shareholders to endorse, through a non-binding advisory vote, Transcend's remuneration policy (excluding the remuneration of non-executive directors).

The complete remuneration policy is available on **www.transcendproperty.co.za** and a summary thereof is provided on page 46 of the integrated annual report.

Explanatory note: In terms of King IV, an advisory vote should be obtained from shareholders on the company's remuneration policy. The vote allows shareholders to express their view on the remuneration policy.

8. Non-binding resolution number 2: Endorsement of remuneration implementation report

For shareholders to endorse, through a non-binding advisory vote, Transcend's remuneration implementation report. Refer to page 46 of the integrated annual report for the remuneration implementation report.

Explanatory note: In terms of King IV, an advisory vote should be obtained from shareholders on the company's implementation plan, contained in its integrated annual report. The vote allows shareholders to express their view on the remuneration implementation report.

In the event of 25% or more of shareholders voting against non-binding resolutions number 1 and 2, the Board is committed to engaging actively with dissenting shareholders in this regard, in order to address all legitimate and reasonable objections and concerns.

Special resolutions

The percentage of voting rights required for the special resolutions below to be adopted is at least 75% (seventy-five percent) of the voting rights exercised in favour of each of the resolutions.

9. Special resolution number 1: Approval of non-executive directors' remuneration

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

1.1 **THAT** the independent non-executive directors each receive R180 000 per annum until 30 June 2018 as per the shareholders' approval at the previous AGM on 29 June 2017, exclusive of VAT; and

1.2 **THAT** the independent non-executive directors each receive R225 000 per annum with effect from 1 July 2018 until the end of the 2018 financial year on 31 December 2018, exclusive of VAT; and

1.3 **THAT** the independent non-executive directors each receive R270 000 pa with effect from 1 January 2019 until the next AGM, exclusive of VAT.

No fees are paid to the non-independent non-executive directors.

Explanatory note: This resolution is proposed 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.

10. Special resolution number 2: General authority to repurchase shares

- To provide, by way of a general authority as contemplated in section 48 of the Companies Act, authority to the company 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 may from time to time determine, subject to the applicable provisions of the MOI, 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 or its subsidiaries are so authorised by their respective MOIs;
- 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 a 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 2017;
- 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.

Further disclosures in terms of section 11.26 Of the JSE Listings Requirements

The following information listed below has been included in the integrated annual report:

- major beneficial shareholders — page 90
- share capital of the company — page 68

Material changes

Other than the facts and developments reported on in the integrated annual 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 audit report and up to the date of this notice.

Directors' responsibility statement

The directors, whose names appear in the 2017 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.

11. Special resolution number 3: General authority to provide financial assistance to related or inter-related entities

To authorise the Board of Directors, to the extent required by and subject to sections 44 and 45 of the Companies Act, the company's MOI and 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 number three.

Explanatory note: Notwithstanding the title of section 45 of the Companies Act, being "Loans or other financial assistance to directors", 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.

12. Special resolution number 4: Approval to issue shares in terms of section 41(1) of the Companies Act

To approve 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 and in accordance with section 41(1) of the Companies Act and the JSE Listings Requirements.

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.

Voting and proxies

A shareholder who is entitled to attend and vote at the AGM may appoint one or more proxies (who need not be a shareholder of the company) to attend, speak and vote in his stead. On a show of hands, every shareholder of the company present in person or represented by proxy shall have one vote only. On a poll, every shareholder of the company present in person or represented by proxy shall have one vote for every share in the company held by such shareholder.

A form of proxy is attached for the convenience of any Transcend shareholder holding certificated shares who cannot attend the annual general meeting but who wishes to be represented thereat. Forms of proxy may also be obtained on request from the company's registered office. For administrative purposes, the completed form of proxy should be deposited at or posted to the office of the transfer secretaries of the company, Link Market Services South Africa (Pty) Ltd, 13th Floor, 19 Ameshoff Street, Braamfontein, Johannesburg, 2001 (PO Box 4844, Johannesburg, 2000) or e-mailed to meetfax@linkmarketservices.co.za to be received by 10:00 on Friday, 25 May 2018.

Alternatively, the form of proxy may be handed to the chairperson of the AGM or the transfer secretaries, at any time prior to the commencement of the AGM or prior to voting on any resolutions proposed at the AGM. Any shareholder who completes and lodges a form of proxy will nevertheless be entitled to attend and vote in person at the AGM should the shareholder subsequently decide to do so.

Attached to the form of proxy is an extract of section 58 of the Companies Act, to which shareholders are referred.

Shareholders who have already dematerialised their shares through a Central Securities Depository Participant ("CSDP") or broker and who wish to attend the AGM must instruct their CSDP or broker to issue them with the necessary letter of representation to attend. For administrative purposes, dematerialised shareholders, who have elected "own name" registration in the sub-register through a CSDP and who are unable to attend but who wish to vote at the AGM must complete and return the attached form of proxy and lodge it with the transfer secretaries of the company, Link Market Services South Africa (Pty) Ltd, 13th Floor, 19 Ameshoff Street, Braamfontein, Johannesburg, 2001 (PO Box 4844, Johannesburg, 2000) or be e-mailed to meetfax@linkmarketservices.co.za to be received by no later than 10:00 on Friday, 25 May 2018. Alternatively, the form of proxy may be handed to the chairperson of the AGM or the transfer secretaries, at any time prior to the commencement of the AGM or prior to voting on any resolutions proposed at the AGM. Any shareholder who completes and lodges a form of proxy will nevertheless be entitled to attend and vote in person at the AGM should the shareholder subsequently decide to do so.

All beneficial owners whose shares have been dematerialised through a CSDP or broker other than with "own name" registration, must provide the CSDP or broker with their voting instructions in terms of their custody agreement should they wish to vote at the AGM. Alternatively, they may request the CSDP or broker to provide them with a letter of representation, in terms of their custody agreements, should they wish to attend the AGM. Such shareholder must not complete the attached form of proxy.

In terms of section 63(1) meeting participants will be required to provide identification to the reasonable satisfaction of the chairperson of the AGM and the chairperson must be reasonably satisfied that the right of any person to participate in and vote (whether as a shareholder or as a proxy for a shareholder) has been reasonably satisfied.

By order of the Board

Karen Waldeck
Company Secretary

CorpStat Governance Services Proprietary Limited
7 March 2018

Form of proxy

TRANSCEND RESIDENTIAL PROPERTY FUND LIMITED

Registration number: 2016/277183/06 | JSE share code: TPF | ISIN: ZAE000227765 | (Approved as a REIT by the JSE) | ("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 Central Securities Depositary Participant ("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.

Kindly lodge all forms of proxy at the company's transfer secretaries, Link Market Services South Africa Pty Ltd, 13th Floor, 19 Ameshoff Street, Braamfontein 2001 (PO Box 4844, Johannesburg, 2000), or via e-mail to meetfax@linkmarketservices.co.za by no later than 10:00 on Friday, 25 May 2018 to facilitate administration. Alternatively, the form of proxy may be handed to the chairman of the meeting or the transfer secretaries at the annual general meeting at any time prior to the commencement of the annual general meeting or prior to voting on any resolution proposed at the annual general meeting.

I/We _____

being an ordinary shareholder of the company holding, do hereby appoint:

1. _____ and/or

2. _____ and/or

3. the Chairman of the annual general meeting, as my proxy to vote on my behalf at the abovementioned annual general meeting and any adjournment thereof, to be held at 54 Peter Place, Peter Place Office Park, Block C, Cardiff House, Bryanston, Johannesburg on Tuesday, 29 May 2018 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
ORDINARY RESOLUTIONS			
1. Ordinary resolution No. 1: Re-election of directors			
1.1 Re-election of RR Emslie			
1.2 Re-election of MS Aitken			
1.3 Re-election of FN Khanyile			
1.4 Confirmation of election of M Kritzinger			
2. Ordinary resolution No. 2: Election of Audit and Risk Committee members			
2.1 Election of RR Emslie as Audit and Risk Committee member			
2.2 Election of MS Aitken as Audit and Risk Committee member			
2.3 Election of FN Khanyile as Audit and Risk Committee member			
3. Ordinary resolution No. 3: Appointment of auditors			
4. Ordinary resolution No. 4: General authority to issue shares for cash			
5. Ordinary resolution No. 5: Authority to implement resolutions			
6. Ordinary resolution No.6: Authority to issue shares pursuant to a re-investment option			
7. Non-binding resolution No. 1: Endorsement of remuneration policy			
8. Non-binding resolution No. 2: Endorsement of remuneration implementation report			
SPECIAL RESOLUTIONS			
9. Special resolution No. 1: Non-executive directors' remuneration			
1.1 Remuneration until 30 June 2018 — R180 000			
1.2 Remuneration until 1 July 2018 to 31 December 2018 — R225 000			
1.3 Remuneration from 1 January 2019 to next AGM — R270 000			
10. Special resolution No. 2: Authority to repurchase shares			
11. Special resolution No. 3: Authority to provide financial assistance to related or inter-related entities			
12. Special resolution No. 4: Authority to issue shares in terms of section 41(1) of the Companies Act			

Insert an "X" in the appropriate block. If no indications are given, the proxy will vote as he 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 stead.

Signed at _____ on _____ 2018

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 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 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 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 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, 19 Ameshoff Street, Braamfontein 2001 (PO Box 4844, Johannesburg, 2000) or e-mailed to meetfax@linkmarketservices.co.za by Friday, 25 May 2018 to facilitate administration. Alternatively, the form of proxy may be handed to the chairman or the transfer secretaries at any time prior to the commencement of the annual general meeting or prior to voting on any resolution proposed at 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) Ltd
"IHS AM"	International Housing Solutions Asset Management (Pty) Ltd
"IHS PM"	International Housing Solutions Property Management (Pty) Ltd
"infill development"	Infill development is the process of developing vacant or under-used parcels within existing urban areas that are already largely developed
"JSE"	JSE Limited
"King IV"	King IV Report on Corporate Governance for South Africa 2016
"NAV"	Net asset value
"REIT"	Real Estate Investment Trust
"SAICA"	South African Institute of Chartered Accountants
"SAWHF"	South African Workforce Housing Fund PVE (SA)
"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 C, Cardiff House
Peter Place Office Park
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(PO Box 1686, Randburg, 2125)

Corporate advisor and bookrunner
Java Capital (Pty) Ltd
(Registration number 2012/089864/07)
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Sandton, 2196
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Rosebank
Johannesburg, 2196

Independent property valuer
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(Registration number 2012/101775/07)
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Hyde Park
Sandton, 2196
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Transfer secretary
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19 Ameshoff Street
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CorpStat Governance Services (Pty) Ltd
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85 Empire Road, Parktown
Johannesburg, 2193
(Private Bag 9, Parkview, 2122)

Bankers
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(Registration number 1962/000738/06)
2nd Floor, Rosebank Corner
191 Jan Smuts Avenue
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Johannesburg, 2193
(PO Box 8786, Johannesburg, 2000)

Tax advisor
Java Capital Tax Advisory (Pty) Ltd
(Registration number 2015/063226/07)
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