

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

Provisional summarised audited financial statements for the year
ended 31 December 2018

Highlights

Distribution per share (cents)	64.68 (1% growth)
Total units	4,691
Investment property value	R2.59 billion
Net Asset Value (per share Rand value)	R9.57
Growth in portfolio size (% Rand value)	53%

Basis of preparation

The summary financial statements have been prepared in accordance with the requirements of the JSE Limited ('JSE') Listings Requirements for provisional reports, and the requirements of the Companies Act of South Africa, No 71 of 2008, as amended, applicable to summary financial statements. The JSE Listings Requirements require provisional reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ('IFRS'), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the financial statements from which the summary financial statements were derived are in terms of IFRS and are, except for the adoption of the IFRSs as set out in Note 1. Basis of measurement, consistent with those applied to the financial statements for the year ended 31 December 2017, as published on 9 March 2018.

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

Myles Kritzingher CA(SA), Transcend's Chief Financial Officer, was responsible for supervising the preparation of the financial statements that this provisional report summarises, as well as the preparation of these summary financial statements.

Commentary

Main business and operations

Transcend is a Real Estate Investment Trust ('REIT') and owns a property portfolio of 22 directly-owned properties valued at R2.72 billion located primarily in Gauteng, the Western Cape and Mpumalanga – a discontinued operation – in South Africa. The primary business of Transcend is the acquisition and operation of income-generating residential properties, with a focus on housing opportunities that are affordable, lifestyle enhancing and well located in high growth urban areas. In line with its strategy, Transcend acquired 9 properties during 2018, comprising 2,219 units. One of these properties, Vanguard Village, consisting of 60 units registered and transferred in the name of Transcend during August 2018. The remaining 2,159 units, located across 8 properties, are effective date transactions with related parties. The respective sales agreements for these units became unconditional on 30 November 2018, making the effective date of the sales 1 December 2018 ('effective date'). The risks and rewards of ownership transferred to Transcend on the effective date, however, the registration and transfer of these units are expected to only take place during the first half of 2019. Transcend is also in the process of disposing of a non-performing property, Acacia Place, located in Mpumalanga. This property has been classified as an asset held-for-sale and discontinued operation. A sales agreement has been signed for Acacia Place and occupational rent is payable to Transcend until transfer is effected, which is expected to be concluded in the first half of 2019.

Equity raised

During the financial year, Transcend issued a total of 64.59 million of Transcend ordinary shares and raised R415.92 million of share capital. The equity raised was utilised to finance Transcend's investment activities for the

acquisition of new properties during 2018.

- * On 4 October 2018, the Company issued 7.3 million Transcend ordinary shares at a price of R6.29 per share under the Company's general authority to issue shares for cash.
- * On 14 December 2018, the Company issued 57.29 million Transcend ordinary shares at a price of R6.46 per share in terms of the private placement. The shares were issued at a 15.35% premium to the 30-day volume weighted average price ('VWAP') up to and including Monday, 10 December 2018.

Debt raised

Transcend recognised new interest-bearing borrowings during 2018 for the acquisition of Vanguard Village. This amounted to R26.99 million through a new facility with The Standard Bank of South Africa Limited ('Standard Bank') and an additional R7 million on an existing Standard Bank facility. Borrowings to the value of R786.72 million with Standard Bank and Nedbank Limited ('Nedbank') were secured to fund the acquisition of the 8 properties still due to transfer to the Company. Upon registration and transfer of the properties to Transcend, these facilities will be drawn upon and recognised in the statement of financial position as interest-bearing borrowings. At 31 December 2018 Transcend had loans with related parties of R828.84 million which are classified as current and payable on transfer of the respective properties. The R786.72 million secured bank debt and excess cash will be used to settle these loans.

A shareholder loan of R143.46 million from Emira Property Fund Limited ('Emira') was secured during the year. This loan was also used to finance Transcend's investment in the 8 new properties.

Results

Transcend has outperformed its guidance of flat growth for the year ending 31 December 2018. On 6 March 2019, the board of directors of the Company (the 'Board') declared a final distribution of 34.58 cents per share for the six months ended 31 December 2018. This brings the full year distribution to 64.68 cents per share (2017: 64.04 cents per share), which is 1% greater than the forecast flat dividend per share of 64.04 cents per share published in the SENS announcement on 24 August 2018. The slight increase in distribution growth relates to a portfolio-wide improvement in occupancies for the second half of 2018; recovery of water and certain utilities at Parklands, located in the Western Cape; as well as securing occupational rent and increased operating income under an agreement for the sale of Acacia Place.

In August 2018, management revised its forecast distribution to one of flat growth for the year due to the deteriorating economic climate experienced during the first half of 2018. This downswing resulted from pressures on tenant affordability, rental escalations and property vacancies; and a drop-off in the overall performance of the market. Despite these pressures, Transcend was able to grow its distribution from 2018 due to the defensive nature of the residential asset class and by owning well-located properties in high demand areas.

Acacia Place, a property located in Duvha, Witbank, eMalahleni, was identified by management as a non-performing property. This was as a result of large vacancies from the non-renewal of bulk leases and the depressed market in Witbank. Management took a decision to sell this property to Instratin Properties Proprietary Limited ('Instratin'). The property has an anticipated transfer date of 30 April 2019 until which time an occupational rent is payable to Transcend by Instratin.

Profit and total comprehensive income for the year amounts to R197.07 million (2017: R67.97 million), of which R188.4 million (2017: R63.11 million) is from continuing operations. The increase from continuing operations is mainly due to a net gain on fair value adjustments to investment property of R160.63 million (2017: R35.54 million), and an unrealised gain on revaluation of interest rate swaps of R2.16 million (2017: loss of R3.03 million). The headline earnings attributable to equity holders is R36.53 million (2017: R38.73 million). Total assets as at 31 December 2018 amounted to R2.87 billion (2017: R1.27 billion), with the increase attributable to the property acquisitions as detailed in 'Property portfolio'. The total liabilities as at 31 December 2018 amounted to R1.61 billion (2017: R581 million).

Property portfolio

Acquisitions

In line with its strategy, Transcend acquired 9 properties during 2018, comprising 2,219 units.

Geographically, the properties are located in the following provinces:

Gauteng	77%
Western Cape	17%
Mpumalanga*	6%

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

* Mpumalanga relates to a single property, Acacia Place. This property is in the process of being sold and has been disclosed as an asset held-for-sale. Consequently, Mpumalanga has also been presented as a discontinued operation.

An agreement for the acquisition of a further property, Silverleaf, consisting of 76 units has been entered into between Transcend and the seller, De Facto Investments 264 Proprietary Limited. This agreement was entered into on 28 March 2018 for a purchase consideration of R44.5 million. The transfer of this property was expected prior to 31 December 2018, however, due to delays in the finalisation of town-planning amendments, the transfer has not yet taken place.

Vacancies and arrears

Based on existing leases as at 31 December 2018, the total portfolio's vacancy rate was 7.7%. Excluding Acacia Place, the vacancy rate for the remaining 21 properties is 5.4%. It is expected that the vacancies of the stabilised portfolio will remain within the 3% to 7.5% range.

Facilities

As at 31 December, the following interest-bearing borrowings with Standard Bank were in place:

- * Facility A, Tranche 1: R278.13 million – Interest only loan with a variable rate at 3-month JIBAR plus 1.85% with a maturity date of 31 January 2020;
- * Facility A, Tranche 2: R278.36 million – Interest only loan with a variable rate at 3-month JIBAR plus 2.35% with a maturity date of 31 January 2022;
- * Facility C: R26.86 million – Interest only loan with a variable rate at JIBAR plus 2.15% with a maturity date of August 2021; and
- * Final facility B: R7.1 million – Interest only loan at prime less 1% with a maturity date of 23 August 2021.

The administrative fee of R1.11 million on the raising of the Standard Bank facilities A, B and C, was capitalised and is amortised over the average term of the respective loans.

The Standard Bank facilities are secured by investment properties owned by Transcend with a fair value of R1.27 billion. This includes Acacia Place, an investment property that was transferred to non-current assets held-for-sale. This property is valued at its sales price less cost to sell, at an amount of R127.5 million. After the sale and transfer of Acacia Place, the security will be adjusted accordingly for the remaining properties.

All other properties that act as funding security are included as investment properties.

Interest is payable quarterly in arrears on these facilities. Transcend currently has interest rate swaps on the A facilities. The 3-year tranche is 50% hedged by an interest rate swap at a fixed rate of 7.59% which expired in January 2019, and the 5-year tranche is 50% hedged by an interest rate swap at a fixed rate of 7.62% which terminates in January 2020. In January 2019 Transcend entered into a new 50% interest rate swap on the Facility A 3-year tranche at a fixed rate of 7.26% and a maturity date of 31 January 2019 to replace the existing swap over this tranche. During February 2019, Transcend also extended the 50% interest rate swap on the Facility A 5-year tranche to 31 January 2022 so to align to the maturity date of the principal debt. The revised rate of this 3-year swap is fixed at 7.56%. These are both non-adjusting subsequent events.

At 31 December 2018, 50% of the company's interest rate exposure on the A facilities only was hedged. This was through its 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.

It is the Board's policy to economically hedge at least 50% of the company's exposure to interest rate risk. During the year a new interest-bearing facility was secured for the acquisition of Vanguard Village. This facility has a balance of R26.86 million at 31 December 2018

and has not been hedged.

At 31 December 2018 the total interest rate hedge for the external bank borrowing exposure to interest rate risk is 44%. This ratio will be adjusted by management on the transfer of the 8 investment properties acquired from International Housing Solutions Res 1 (RF) Proprietary Limited ('IHS Res 1') and Sunnysshore Trade and Invest 105 Proprietary Limited ('Sunnysshore') and the utilisation of the secured borrowings with Standard Bank and Nedbank.

	R'000 2018	R'000 2017
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. Properties with a fair value of R1.23 billion are provided as security over the bond.	278 131	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. Properties with a fair value of R1.23 billion are provided as security over the bond.	278 363	278 375
Facility C: Interest only loan with a variable rate at JIBAR plus 2.15% with a maturity date of August 2021. A property with a carrying value of R36.2 m is provided as security over the bond.	26 857	-
Final facility B: Interest only loan at prime less 1% with a maturity date of 23 August 2021. This facility is secured by a bond over the same properties utilised as security for Facility A.	7 057	-
Carrying value of administrative fee on raising of new loan facility capitalised.	(1 108)	(1 194)
Subtotal	589 300	555 324
Less: Short-term portion of interest-bearing borrowings.	(52 924)	(52 431)
Total	536 376	502 893

Gearing

Transcend's loan-to-value ('LTV') ratio is 47% (2017: 41.8%), which represents an increase from the prior year, mainly due to the property acquisitions during the year. This falls outside the targeted long-term range of 30% to 40%, however, management plans to reduce this LTV ratio to the targeted range within the medium-term by raising equity for new acquisitions and using proceeds from the sale of Acacia Place to pay down on existing debt.

Summary of financial performance

	December 2018	December 2017
Dividend per share (cents)	64.68	64.04
Shares in issue (number '000)	130 895	66 306
Net asset value per share (Rand)	9.57	10.39
Loan-to-value ratio (%) (*)	47.0%	41.8%
Net property expense ratio (%) (**)	29.0%	29.8%
Gross property expense ratio (%) (**)	34.9%	34.6%
Net total expense ratio (%) (**)	43.4%	36.5%
Gross total expense ratio (%) (**)	48.1%	40.9%

(*) The LTV ratio is calculated by dividing property backed interest-bearing borrowings (excluding the subordinated shareholder loan) less cash, by the total value of investment property and assets held-for-sale (Acacia Place).

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

Statement of financial position

	Audited as at 31 December 2018 R'000	Audited as at 31 December 2017 R'000
Assets		
Non-current assets	2 591 069	1 219 394
Investment properties	2 588 000	1 218 640
Plant and equipment	3 069	754
Current assets	148 146	50 489
Trade and other receivables	6 525	4 441
Cash and cash equivalents	141 621	46 048

Assets held-for-sale	127 500	-
Total assets	2 866 715	1 269 883
Equity and liabilities		
Equity	1 252 701	688 829
Stated capital	1 020 934	632 276
Retained earnings	231 767	56 553
Non-current liabilities	678 041	505 763
Interest-bearing borrowings	536 376	502 893
Loan from shareholder	140 986	-
Derivative liabilities	679	2 870
Current liabilities	934 576	75 291
Loans from related parties	828 835	-
Interest-bearing borrowings	52 924	52 431
Trade and other payables	51 827	22 636
Loan from shareholder	795	-
Derivative liabilities	195	158
Taxation	-	66
Liabilities directly associated with asset held-for-sale	1 397	-
Total equity and liabilities	2 866 715	1 269 883

Statement of profit or loss and other comprehensive income
Audited for the year ended 31 December 2018

	Audited as at 31 December 2018 R'000	Audited as at 31 December 2017 R'000
Continuing operations		
Rental income from investment properties	148 346	129 143
Recoveries of operating costs from tenants	13 452	9 558
Revenue	161 798	138 701
Property operating expenses	(53 907)	(45 612)
Impairment losses	(2 506)	(2 392)
Net operating income	105 385	90 697
Other operating expenses	(21 375)	(8 660)
Operating profit	84 010	82 037
Gain on fair value adjustment of investment property	160 627	35 540
Unrealised gain/(loss) on revaluation of interest rate swaps	2 155	(3 028)
Net finance charges	(58 390)	(51 382)
Finance income	3 098	1 590
Finance costs	(61 488)	(52 972)
Profit before taxation	188 402	63 167
Taxation	-	(57)
Profit and total comprehensive income for the period	188 402	63 110
Profit/(loss) from discontinued operation net of tax	8 666	4 863
Total comprehensive income for the period	197 068	67 973
Basic and diluted earnings per share (cents) - continuing operations	265.70	95.20

Statement of cash flows

	Audited as at 31 December 2018 R'000	Audited as at 31 December 2017 R'000
Cash generated by operating activities	111 358	94 655
Finance income received	3 130	1 591
Finance costs paid	(53 672)	(44 012)
Net cash generated from operating activities	60 816	52 234
Investment properties acquired	(505 206)	-
Property and equipment acquired	(2 759)	(856)
Net cash utilised in investing activities	(507 965)	(856)
Proceeds from share issue	410 915	-
Interest-bearing borrowings drawn down	33 476	(887)
Shareholder loan raised	140 986	-
Dividends paid	(42 655)	(27 944)
Net cash generated from/(utilised in) financing activities	542 722	(28 831)
Net increase in cash and cash equivalents	95 573	22 547
Cash and cash equivalents at the beginning of the year	46 048	23 501
Cash and cash equivalents at the end of the year	141 621	46 048
Cash and cash equivalents consist of:		
Tenant deposits	25 487	13 829
Cash on hand	116 134	32 219

141 621 46 048

Statement of changes in equity

	Stated capital R'000	Retained earnings R'000	Total equity R'000
Balance at 31 December 2017	632 276	56 553	688 829
Total comprehensive income for the year	-	-	-
Profit for the year	-	197 068	197 068
Total comprehensive income for the year	-	197 068	197 068
Transactions with owners			
Dividends	-	(42 655)	(42 655)
Issue of share capital	409 459	-	409 459
Transfer of antecedent dividend	(20 801)	20 801	-
Balance at 31 December 2018	1 020 934	231 767	1 252 701

Note: Stated capital includes acquisition and transaction fees of R8.94 million that were capitalised against equity.

* An antecedent dividend was reclassified from stated capital to retained earnings for 64.59 million shares issued during 2018. On 4 October 2018, 7.3 million shares were issued under the Company's general authority. A further 57.29 million shares were issued on 14 December 2018 at an ex-dividend price of R6.29 per share (cum-dividend price of R6.46 per share).

Notes

1. 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 IFRS that are relevant to its operations and effective for reporting periods beginning on or after 1 January 2018. At the date of authorisation of these financial statements for the year ended 31 December 2018, the following IFRSs requirements were adopted:

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas:

* Classification and measurement: Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. IFRS 9 introduces a fair value through other comprehensive income category for certain debt instruments.

Financial liabilities are classified in a similar manner as under IAS 39. However, there are differences in the requirements applying to measurement of an entity's own credit risk;

- * Impairment: IFRS 9 introduces an expected credit loss model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised;
- * Hedge accounting: IFRS 9 introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures; and
- * Derecognition: The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. The five steps in the model are as follows:

- * Identify the contract with the customer;
- * Identify the performance obligations in the contract;
- * Determine the transaction price;
- * Allocate the transaction price to the performance obligations in the contracts; and
- * Recognise revenue when (or as) the entity satisfies a performance obligation.

Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable considerations, costs of fulfilling

and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

Transfers of Investment Property (Amendments to IAS 40)

The amendments to IAS 40 Investment Property:

- * Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if a property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use; and
- * The list of examples of evidence of a change in use in the standard is now presented as a non-exhaustive list of examples instead of the previous exhaustive list.

Definition of a Business (Amendments to IFRS 3)

In October 2018, the IASB issued amendments to IFRS 3 Business Combinations which are effective for years beginning on or after 1 January 2020. These amendments may be early adopted. Transcend has elected to early adopt these amendments as at 31 October 2018.

The definition of a business has been updated in this amendment. Per the amendment, in order to assess whether a transaction is the acquisition of a business, an entity first assesses whether substantially all of the fair value of the gross assets acquired are concentrated in a single asset or group of similar assets. If the fair value is concentrated in this way, then the transaction is not the acquisition of a business.

The Company has not entered into any business combinations during the year as the fair value of the assets acquired is substantially all concentrated into a single asset or group of similar assets. Therefore, the acquisition of the properties during the year is considered to be an acquisition of a group of assets and not an acquisition of a business.

Application of the above standards did not require any prior year adjustments.

2. Reconciliation of profit for the year to headline earnings

	Audited as at 31 December 2018 R'000	Audited as at 31 December 2017 R'000
Reconciliation of basic earnings to headline earnings		
Profit for the year attributable to Transcend shareholders	197 068	67 973
Change in fair value of investment properties	(160 543)	(29 240)
Headline earnings attributable to Transcend shareholders	36 525	38 733
Profit/(loss) from discontinued operation net of tax	8 666	4 863
Actual number of shares in issue	130 895	66 306
Weighted average number of shares in issue	70 911	66 306
Basic and diluted earnings per share (cents)	277.91	102.51
Basic and diluted earnings per share (cents) – continuing operations	265.70	95.20
Headline and diluted headline earnings per share (cents)	51.51	58.42
Net asset value per share (Rand)	9.57	10.39

3. Sectoral split

Based on:	GLA	Book value
Residential	100%	100%

4. Lease expiry profile

Based on:	GLA	Rental revenue
Vacancy	8,0%	7,7%
Monthly	79,6%	80,2%
30 June 2019	12,4%	12,1%
31 December 2019	0,0%	0,0%
	100,0%	100,0%

5. Related parties and related party transactions

Transcend is 45.1% owned by the South African Workforce Housing Fund SA (PVE), a South African en commandite partnership duly represented by its general partner, the South African Workforce Housing Fund SA GP (RF) Pty Ltd (the 'Partnership'). The Partnership is comprised of three partners

being the South African Workforce Housing Fund (Cayman) I Ltd, South African Workforce Housing Fund (Cayman) II Ltd and South African Workforce Housing Fund (SA) II. The relationship between the Partnership and International Housing Solutions (RF) (Pty) Ltd ('IHS (RF) (Pty) Ltd') is governed by a signed investment advisory agreement.

IHS RF (Pty) Ltd has a shareholding of 11.5%.

Transcend is externally managed by IHS Asset Management (Pty) Ltd ('IHS AM'), a private company registered and incorporated in accordance with the laws of South Africa and a wholly-owned subsidiary of IHS (RF) (Pty) Ltd. An asset management agreement was entered into by Transcend and IHS AM and became effective 1 October 2016. In turn, IHS AM outsources certain functions to IHS (RF) (Pty) Ltd in terms of a service level agreement. IHS AM charged Transcend asset management fees of R5.75 million (2017: R4.47 million) during the year in accordance with the asset management agreement.

The property management function of the Company is outsourced on market related terms to IHS Property Management (Pty) Ltd ('IHS PM'), a private company registered and incorporated in accordance with the laws of South Africa. A property management agreement was entered into by Transcend and IHS PM on 16 October 2016. IHS PM charged Transcend property management fees of R12.4 million (2017: R11.12 million) during the year in accordance with the property management agreement.

34.9% of the shares are held by Emira. In addition to its shareholding, Emira also has a shareholder's loan of R141.78 million with Transcend at 31 December 2018. This loan is subordinated against all other interest-bearing borrowings. Interest is payable to Emira quarterly at an effective rate of JIBAR plus 3.5%.

The loans from related parties are in respect of outstanding balances owing to IHS Res 1 and Sunnyshore for the acquisition of 2,159 units. The purchase considerations are funded partially through equity and debt on transfer of the properties.

IHS Res 1

From 1 December 2018, interest is payable to IHS Res 1 on the balance owing at an effective rate of 9.4%, with interest payable monthly in arrears on the balance of the loan outstanding. The first payment of interest was due in January 2019 and the total interest accrued at 31 December 2018 is classified as current. The loan is unsecured as at 31 December 2018, however, will be secured through new debt of R740 million upon the issue of guarantees by Standard Bank and Nedbank prior to the properties transferring to Transcend. Investment properties recognised in respect of these units hold a fair value of R1.39 billion at 31 December 2018.

Sunnyshore

From 1 December 2018, interest is payable to Sunnyshore on the balance owing at an effective rate of 5.6%, with interest payable monthly in arrears on the outstanding balance. The first payment of interest is due in January 2019 and the total interest of R216,382 accrued at 31 December 2018 is classified as current. As at 31 December 2018, funding is secured by the way of a guarantee issued by Standard Bank. Investment properties recognised in respect of these units hold a fair value of R61.4 million at 31 December 2018.

On transfer of the 2,159 units to Transcend, the existing bonds over the properties will be cancelled and new bonds will be registered to the value of R786.72 million. New 3-year, 5-year and overdraft facilities in respect of these units have been secured through Standard Bank and Nedbank. These facilities amount to R786.72 million and will be secured by the target investment properties with a value of R1.45 billion.

Transcend does not have any subsidiaries.

6. Summarised segmental analysis

Transcend has four reportable segments based on the entity's strategic business segments. For each strategic business segment, the entity's executive directors review internal management reports on a monthly basis. All segments are located in South Africa and are based on specific regions in which the properties are located.

Asset held-for-sale and discontinued operation: Transcend has concluded a sale agreement to dispose of one of the reportable segments (Mpumalanga: Investment property – Acacia Place), and the transfer of this property is expected to be concluded in the first half of 2019. This property, and operating segment, has therefore been presented as a discontinued operation at 31 December 2018.

Audited as at 31 December 2018
Statement of profit or loss and other comprehensive income

R'000	Mpumalanga	Western Cape
Rental income from investment properties	12 212	20 152
Recoveries of operating costs from tenants	2 390	1 558
Revenue	14 602	21 710
Property operating expenses	(4 893)	(8 493)
Impairment losses	(911)	(1 012)
Net operating income	8 798	12 205
Other operating expenses	(80)	(1 135)
Operating profit	8 718	11 070
Unrealised gain/(loss) on revaluation of interest rate swaps	-	-
Gain/(loss) on fair value adjustment of investment property	(84)	37 674
Net finance charges	32	40
Finance costs	-	-
Finance income	32	40
Profit before taxation	8 666	48 784
Taxation	-	-
Profit and total comprehensive income for the year	8 666	48 784
Statement of financial position		
Investment properties	-	470 900
Assets held-for-sale	127 500	-
Other assets	4 103	2 804
Interest-bearing borrowings	-	-

R'000	Gauteng	Reconciliation	Total
Rental income from investment properties	128 194	-	160 558
Recoveries of operating costs from tenants	11 894	-	15 842
Revenue	140 088	-	176 400
Property operating expenses	(45 413)	-	(58 799)
Impairment losses	(1 494)	-	(3 417)
Net operating income	93 181	-	114 184
Other operating expenses	(685)	(19 557)	(21 457)
Operating profit	92 496	(19 557)	92 727
Unrealised gain/(loss) on revaluation of interest rate swaps	-	2 155	2 155
Gain/(loss) on fair value adjustment of investment property	122 953	-	160 543
Net finance charges	222	(58 652)	(58 358)
Finance costs	-	(61 488)	(61 488)
Finance income	222	2 836	3 130
Profit before taxation	215 671	(76 054)	197 067
Taxation	-	-	-
Profit and total comprehensive income for the year	215 671	(76 054)	197 067
Statement of financial position			
Investment properties	2 117 100	-	2 588 000
Assets held-for-sale	-	-	127 500
Other assets	9 411	134 897	151 215
Interest-bearing borrowings	-	589 300	589 300

Audited as at 31 December 2017
Statement of profit or loss and other comprehensive income

R'000	Mpumalanga	Western Cape
Rental income from investment properties	15 641	17 126
Recoveries of operating costs from tenants	2 878	1 074
Revenue	18 519	18 200
Property operating expenses	(7 205)	(6 590)
Impairment losses	(88)	(792)
Net operating income	11 226	10 818
Other operating expenses	(45)	(575)
Operating profit	11 181	10 243
Unrealised gain/(loss) on revaluation of interest rate swaps	-	-
Gain/(loss) on fair value adjustment of investment property	(6 300)	8 700
Net finance charges	(18)	4
Finance costs	(19)	-
Finance income	1	4
Profit before taxation	4 863	18 947
Taxation	-	-
Profit and total comprehensive income for the year	4 863	18 947
Statement of financial position		

Investment properties	127 500	134 300
Assets held-for-sale	-	-
Other assets	3 185	2 271
Interest-bearing borrowings	-	-

R'000	Gauteng	Reconciliation	Total
Rental income from investment properties	112 017	-	144 784
Recoveries of operating costs from tenants	8 484	-	12 436
Revenue	120 501	-	157 220
Property operating expenses	(39 022)	-	(52 817)
Impairment losses	(1 600)	-	(2 840)
Net operating income	79 879	-	104 403
Other operating expenses	(433)	(7 652)	(8 705)
Operating profit	79 446	(7 652)	95 698
Unrealised gain/(loss) on revaluation of interest rate swaps	-	(3 028)	(3 028)
Gain/(loss) on fair value adjustment of investment property	26 840	-	29 240
Net finance charges	(9)	(51 377)	(51 400)
Finance costs	(10)	(52 962)	(52 991)
Finance income	1	1 585	1 591
Profit before taxation	106 277	(62 057)	70 510
Taxation	-	(57)	(57)
Profit and total comprehensive income for the year	106 277	(62 114)	70 453
Statement of financial position			
Investment properties	956 840	-	1 218 640
Assets held-for-sale	-	-	-
Other assets	11 564	34 223	51 243
Interest-bearing borrowings	-	555 324	555 324

7. Reconciliation of profit for the year to distributable earnings

	Audited as at 31 December 2018 R'000	Audited as at 31 December 2017 R'000
Profit for the year attributable to Transcend shareholders	197 068	67 973
Unrealised loss/(gain) on interest rate swaps	(2 155)	3 028
Change in fair value of investment properties	(160 543)	(29 240)
Acquisition and transaction costs expensed	9 493	-
Surplus working capital available for distribution**	3 956	703
Antecedent dividend available for distribution*	17 403	-
Distributable income for the year***	65 222	42 464
Distribution per share (cents)	64.68	64.04
Interim	30.10	29.81
Final	34.58	34.23

* Antecedent dividend reclassified from stated capital to retained earnings for 64.59 million shares issued during 2018.

** Surplus working capital available for distribution relates to taxable temporary differences.

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

8. Financial instrument and investment property fair value disclosures

Financial asset classification

The Company classifies financial assets into the following categories:

- * Financial assets subsequently measured at amortised cost; and
- * Financial assets subsequently measured at fair value through profit or loss.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The Company intends to hold the financial assets being trade and other receivables to collect contractual cash flows (interest and or payment of principal).

The Company reclassifies debt instruments when, and only when, its business model for managing those assets changes. In the current year there was no change in the business model for managing the recognised financial assets.

Transcend has classified trade and other receivables and cash and cash equivalents as financial assets measured at amortised cost. As at 31 December 2018 Transcend does not have any financial assets which are measured at fair value through profit or loss.

Financial liability classification

The Company classifies financial liabilities into the following categories:

- * Financial liabilities subsequently measured at amortised cost; and
- * Financial liabilities subsequently measured at fair value through profit or loss.

Transcend has classified its shareholder loan, interest-bearing borrowings, loans from related parties and trade and other payables as financial liabilities subsequently measure at amortised cost. Derivative liabilities are classified as financial liabilities measured at fair value through profit or loss.

Fair value hierarchy for financial instruments and investment property

When measuring the fair value of an asset or liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on inputs used in the valuation techniques as follows:

- * Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- * Level 2: inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- * Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Figures in R'000s	Fair value	Level 1	Level 2	Level 3
31 December 2018				
Assets				
Investment properties	2 588 000	-	-	2 588 000
Non-current assets held-for-sale	127 500			127 500
	2 715 500	-	-	2 715 500
Liabilities				
Derivative liabilities	(874)	-	(874)	-
	(874)	-	(874)	-

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

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

Details of valuation techniques

Investment properties

Investment properties are valued using a level 3 model.

The properties were valued as at 31 December 2018 by capitalising the net contractual income derived from the properties for a period of one year in advance by an applicable capitalisation rate as determined by the independent valuer. The calculation of the market value of all properties in Transcend has been based on the income capitalisation method. 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.

All of the Company's investment properties, except for Protea Glen, were valued at 31 December 2018 by an external registered valuer. The valuations were reviewed by the executive directors and asset managers and presented to the Investment Committee for recommendation and approval by the Board on 6 March 2019. Protea Glen was independently valued at 1 August 2018, and the value at that date approximated its actual value at 31 December 2018. For all investment properties, their current use equates to the highest and best use.

Key assumptions used to determine the value of the properties:

Expected net operating income:

The average rental income ranges from R4 060 to R10 273 (2017: R4 259 to R6 530) per unit. Generally, the rentals are market related compared to similar buildings in comparable areas.

Capitalisation rate:

The capitalisation rate ranges from 8% to 10% (2017: 8.25% to 9.5%). The capitalisation rate applied was derived using an appropriate risk-free rate and adding on a property related risk and illiquidity risk related to property, as well as further amounts related to each property's construction, size, age, rental, use 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.

Vacancy factor:

In order to apply a conservative approach, 3% to 15% (2017: 2.5% to 13.25%) 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 38% at 31 December 2018 due to a bulk lease which was terminated. This property is in the process of being sold.

Derivative liabilities – Valuation process

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. Throughout the year, 50% of the floating interest rate borrowings has been economically hedged to fixed interest rates. At year end, 44% of floating interest rate borrowings are hedged. Management will adjust this ratio back to policy required norms upon transfer of the 2,159 units acquired from IHS Res 1 and Sunnysshore.

Interest rate swaps

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

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 purpose when pricing interest rate swaps. The fair value estimate is subject to a credit risk adjustment that reflects the credit risk of the company and of the counterparty. This is calculated based on credit spreads derived from current credit default swap or bond prices.

As at 31 December 2018, the derivative financial liabilities relating to interest rate swaps were fair valued, resulting in a decrease of R2.16 million in the liability and a corresponding fair value movement of R2.16 million (2017: R3.03 million) in profit or loss.

9. Outlook

The economic climate of 2018 saw higher taxes and increased fuel costs which placed added pressure on tenant affordability and consumer costs. This had a resultant impact on market performance, and more specifically on the residential property sector. In light of the upcoming elections and the current Eskom constraints, South Africa appears as though it will experience moderate growth in 2019. Management supports this view and therefore expects Transcend's performance to be slightly better than its performance over the past 12 months provided there are no material changes to the existing portfolio. This, coupled with rental escalations, the effects of gearing and pro-active cost management, should result in an increase in distribution for the 2019 year.

This forecast assumes that current market and trading conditions prevail for the portfolio. This forecast has not been reviewed or reported on by the independent external auditors. Transcend's use of distribution per share as a relevant measure of financial performance remains unchanged from the Listing Prospectus issued on its listing in 2016.

10. Subsequent events

In line with IAS 10 Events After the Reporting Date, the declaration of the final dividend of 34.58 cents per share, as disclosed in Note 12 Payment of final dividend, occurred after the end of the reporting period, resulting in a non-adjusting event that is not recognised in the financial statements.

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

11. Liquidity

As at 31 December 2018, the Company had a positive net asset value of R1.25 billion (2017: R0.69 billion). Its current liabilities exceeded its current assets by R786.43 million (2017: R24.8 million). The cause of current liabilities exceeding current assets is due to loans from related parties and a portion of long-term borrowings becoming due and payable in the next 12 months. Loans from related parties amount to R828.84 million and these were incurred in the acquisition of various properties which became effective on 1 December 2018. Transcend has secured R786.72 million of external interest-bearing borrowings

with Standard Bank and Nedbank which is available and will be drawn on upon transfer of the units to Transcend. The balance of loans payable will be repaid with excess cash. Interest payments on long-term borrowings are due quarterly, and the Company has satisfied itself that it will have sufficient cash to settle these liabilities as they become due and payable each quarter. The Company has performed a cashflow forecast for the next 12 months, and the directors are satisfied that the Company will be liquid and solvent after the declaration of the dividend.

12. Payment of final dividend

The Board has approved and notice is hereby given of a final dividend of 34.58 cents per share for the six months ended 31 December 2018. This brings the full year distribution to 64.68 cents per share (2017: 64.04 cents per share) for the year ended 31 December 2018.

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

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

- a) a declaration that the dividend is exempt from dividends tax; and
- b) a written undertaking to inform the CSDP, broker or the Company, as the case may be, should the circumstances affecting the exemption change or the beneficial owner cease to be the beneficial owner, both in the form prescribed by the Commissioner for the South African Revenue Service. Shareholders are advised to contact their CSDP, broker or the Company, as the case may be, to arrange for the abovementioned documents to be submitted prior to payment of the dividend, if such documents have not already been submitted.

Dividends received by non-resident shareholders will not be taxable as income and instead will be treated as an ordinary dividend which is exempt from income tax in terms of the general dividend exemption in section 10(1)(k)(i) of the Income Tax Act, (unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation ('DTA') between South Africa and the country of residence of the shareholder). Assuming dividend withholding tax will be withheld at a rate of 20%, the net dividend amount due to non-resident shareholders is 27.66400 cents per share. A reduced dividend withholding rate in terms of the applicable DTA may only be relied on if the non-resident shareholder has provided the following forms to their CSDP or broker, as the case may be, in respect of uncertificated shares, or the Company, in respect of certificated shares:

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

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

As at the date of this announcement, the Company had a total of 130 894 793 shares in issue. The Company's tax reference number is 9015377253.

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

Last date to trade cum dividend	Tuesday, 26 March 2019
Shares trade ex dividend	Wednesday, 27 March 2019
Record date	Friday, 29 March 2019
Payment date	Monday, 01 April 2019

Share certificates may not be dematerialised or rematerialised between Wednesday, 27 March 2019 and Friday, 29 March 2019, both days inclusive.

In respect of dematerialised shareholders, the dividend will be transferred to CSDP accounts/broker accounts on Monday, 1 April 2019. Certificated shareholders' dividend payments will be deposited on or about Monday, 1 April 2019.

By order of the board

Solly Mboweni

Myles Kritzinger

Chief Executive Officer
Johannesburg
6 March 2019

Chief Financial Officer

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

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

Designated Advisor: Questco Corporate Advisory Proprietary Limited

Company secretary: Karen Waldeck-Kruger

Directors: Robert Reinhardt Emslie* (Chairperson); Robert Nicolaas Wesselo (former Chief Executive Officer)**(1); David Peter Lange(4) (former Chief Financial Officer); Myles Kritzinger(5) (Chief Financial Officer); Solly Mboweni (Chief Executive Officer)(2); Cathal Padraig Conaty**(6); Faith Nondumiso Khanyile*; Michael Simpson Aitken*; Michael Louis Falcone**; Vanessa Perfect (Chief Operating Officer)(3); Geoff Jennet**(7); Michelle Dickens*(8)

* Independent non-executive director

** Non-executive director

(1) Rob Wesselo has stepped down as Chief Executive Officer but will remain on the Board as a non-executive director effective 14 December 2018.

(2) Solly Mboweni, previously the Chief Operating Officer, replaces Rob Wesselo as the Company's Chief Executive Officer effective 14 December 2018.

(3) Vanessa Perfect replaces Solly Mboweni as the Company's Chief Operating Officer effective 14 December 2018.

(4) David Peter Lange resigned as Chief Financial Officer and executive director of the Company effective 8 March 2018.

(5) Myles Kritzinger was appointed as Chief Financial Officer and executive director of the Company effective 9 March 2018.

(6) Cathal Conaty resigned as a non-executive director effective 14 December 2018.

(7) Geoff Jennet was appointed as a non-executive director effective 14 December 2018.

(8) Michelle Dickens was appointed as an independent non-executive director effective 14 December 2018.