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"**)

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

COMMENTARY

Nature of business

Transcend is a Real Estate Investment Trust ("REIT") with a residential-only property portfolio.

Property portfolio

Transcend is a specialist residential REIT and owns a property portfolio of 23 directly-owned properties located primarily in Gauteng, the Western Cape and Mpumalanga – a discontinued operation – in South Africa. The combined gross lettable area ("**GLA**") is 270 451m^2 and the properties have a combined value of R2.82 billion, as at 30 June 2019.

Results

On 7 August 2019, the board of directors of the Company ("the Board") approved an interim dividend of 30.24929 cents per share for the period ended 30 June 2019.

Highlights

Distribution per share (cents)	30.24929 (0.5% growth)
Total units	4 767
Investment property value*	R2.62 billion
Net asset value per share (Rand)	R9.77
Occupancy*	95.01%

* excludes properties classified as assets held-for-sale (Acacia Place investment property ("Acacia Place") and Midrand Village investment property ("Midrand Village") – totalling R204.69 million)

The increase in the interim distribution is in line with management's guidance of slightly better performance than last year, and an expected overall increase in distribution for the 2019 year. The growth in distribution relates to a consistent portfolio-wide improvement in occupancies for the first half of 2019. Despite continued economic pressures and increased concerns around consumer affordability, Transcend was able to grow its distribution from 2018 due to the defensive nature of the residential asset class and by maintaining its strategy of owning well-located properties in high demand areas.

Preparation

The unaudited condensed interim financial statements were compiled under the supervision of Myles Kritzinger CA(SA), the Chief Financial Officer.

Strategy

The primary business of Transcend is the acquisition of income-generating residential properties, with a focus on housing opportunities that are affordable, lifestyle-enhancing and well-located in urban areas. The Company's strategy is to establish a track record of consistent performance and growth in distributions. The Company intends to maximise the performance of its current portfolio and only acquire additional properties that are fully tenanted and that suit the profile of the properties owned in its portfolio.

Acquisitions and disposals

In line with its strategy, Transcend recently acquired a single property, Silverleaf, consisting of 76 units from De Facto Investments 264 Proprietary Limited. This agreement was entered into on 28 March 2018 for a purchase consideration of R44.5 million before bond and transfer costs. The transfer of this property was registered in Transcend's name in the Deed's Office on 21 June 2019. The agreement is supplemented by a 6-month rental guarantee which expires on 31 December 2019.

On 1 December 2018, the Company acquired 8 properties comprising 2 159 units from two related parties by way of effective date agreements (with an effective date of 1 December 2018). These units are fully tenanted sectional title apartments situated in secure, walk-up complexes. The properties are located in Gauteng and the Western Cape and the value of the transaction was R1.27 billion, payable on transfer of the respective units. The risks and rewards of ownership transferred to Transcend on the effective date, however, the transfer of these units only commenced from April 2019. As at 30 June 2019, 1 489 units have transferred to the Company on various dates. The balance of units are located across 2 properties and are expected to transfer to the Company during July and August 2019.

Transcend is also in the process of disposing of Acacia Place, a property consisting of 325 units 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. On 6 March 2019, a decision was taken to dispose of units owned at Midrand Village, a freehold property consisting of 225 units located in Clayville, Gauteng. These units were acquired as investment property by Transcend from a related party, International Housing Solutions Res 1 (RF) Proprietary Limited ("IHS Res 1"). During 2019, management assessed the property and decided that the units are not suited to the profile of property or units held by Transcend for rental purposes. The disposal is part of management's strategy to sell units and pay down debt to reduce the Company's current loan-to-value ("LTV ratio"). At 30 June 2019, there were 89 offers to purchase on units located at this property. The units for which offers are in place have also been classified as assets held-for-sale. The balance of the units are still classified as investment properties.

Transcend has made no disposals of any investment properties during the period under review.

Occupancies

Based on average occupancy rates reported as at 30 June 2019, the stabilised portfolio's occupancy was 95.01%. The total portfolio's occupancy rate, including the disposal properties, Acacia Place and Midrand Village, was 92.79% at the same date. It is expected that the vacancies of the stabilised portfolio will continue to remain within the 4% to 7% range for the remainder of the financial year.

Funding

As at 30 June 2019, the following interest-bearing borrowings with The Standard Bank of South Africa Limited ("Standard Bank") and Nedbank Limited ("Nedbank") were in place:

Facility drawn down	R'000	Margin over JIBAR
Facility A, Tranche 1: Expiry January 2020 (3-year)*	274 000	1.85%
Facility A, Tranche 2: Expiry January 2022 (5-year)	274 000	2.35%
Facility C: Expiry from August 2021 (3-year)	108 960	2.15%
Facility D, Tranche 1: Expiry from April 2022 (3-year)	200 090	1.90%
Facility D, Tranche 2: Expiry from April 2024 (5-year)	200 090	2.25%
Facility B: Expiry January 2020 (3-year) *	7 000	Prime less 1%

* Transcend intends to refinance Facility A, Tranche 1 and Facility B with Standard Bank.

Facility A (Tranches 1 and 2), Facility B and Facility C are held directly with Standard Bank only. Facility D (Tranches 1 and 2) is held under an agency agreement between Standard Bank and Nedbank. The facilities above are secured by the investment properties owned by Transcend with a carrying value of R2.82 billion. This includes Acacia Place and Midrand Village units that were transferred to non-current assets held-for-sale and collectively valued at their respective sales price less cost to sell of R127.5 million and R77.15 million respectively. After the sale and transfer of Acacia Place and Midrand Village, the security will be adjusted accordingly for the remaining properties. An additional R340 million of debt under Facility D and Facility E is secured and available through Standard Bank and Nedbank. This debt will be drawn down on transfer of the remaining units acquired from IHS Res 1.

Interest is payable quarterly. Transcend currently has interest rate swaps on these facilities.

The administrative fee of R0.86 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. Administration and structuring fees of R4.52 million on facility D were also capitalised and are also amortised over an average period of 4 years.

There were no restrictive funding arrangements in place as at 30 June 2019.

As at 30 June 2019, the following interest rate swaps with Standard Bank and Nedbank were in place:

STANDARD BANK SWAPS		
Interest rate applicable	**R'000**	**Rate**
Interest rate swap: Expiry 31 January 2020 (1-year)	137 000	7.26%
Interest rate swap: Expiry 31 January 2022 (3-year)	137 000	7.56%
Interest rate swap: Expiry 15 May 2020 (1-year)	92 500	7.44%
Interest rate swap: Expiry 15 May 2021 (2-year)	92 500	7.57%
Interest rate swap: Expiry 10 April 2022 (3-year)	195 000	7.27%

NEDBANK SWAPS		
Interest rate applicable	**R'000**	**Rate**
Interest rate swap: Expiry 15 May 2020 (1-year)	92 500	7.26%
Interest rate swap: Expiry 17 May 2021 (2-year)	92 500	7.37%
Interest rate swap: Expiry 16 May 2022 (3-year)	195 000	7.23%

Under Facility A, the 3-year tranche was 50% hedged by an interest rate swap at a fixed rate of 7.26% which expires in January 2020, and the 5-year tranche was 50% hedged by an interest rate swap at a fixed rate of 7.56% which expires in January 2022. The additional drawdown of debt under Facility B, Facility C and Facility D brings the total Transcend external bank borrowings to R1.07 billion at 30 June 2019. New 1, 2 and 3-year interest rate swaps with a notional amount of R760 million were entered into in February and April 2019 with Standard Bank and Nedbank to hedge this debt exposure.

Percentage of debt hedged

It is the Board's policy to economically hedge at least 50% of the Company's exposure to interest rate risk. At 30 June 2019, the total interest rate hedge for the external bank borrowing exposure to interest rate risk is 96.3%. This ratio does not take into account the shareholder loan or loans from related parties; and will be adjusted by management on the transfer of the remaining 2 investment properties acquired from IHS Res 1. On transfer of those properties secured borrowings available for drawdown with Standard Bank and Nedbank will be utilized under Facility D and Facility E.

Gearing

Transcend's LTV ratio is 47.6% (30 June 2018: 42.2%), which represents an increase from the prior year, mainly due to the property acquisitions made in December 2018. While this falls outside the targeted long-term range of 30% to 40%, management plans to reduce this LTV ratio to the targeted range within the medium-term which will be achieved by raising equity for new acquisitions and using proceeds from the sale of Acacia Place and Midrand Village to pay down existing debt.

Summary of financial performance

	30 June 2019	**31 December 2018**	**30 June 2018**
Dividend per share (cents)	30.25	34.58	30.10
Shares in issue (000)	130 895	130 895	66 306
Net asset value per share (Rand)	9.77	9.57	10.38
Loan-to-value ratio (1)	47.6%	47.0%	42.2%
Net property expense ratio (2)	28.0%	29%	30.6%
Gross property expense ratio (2)	34.5%	34.9%	35.8%
Net total expense ratio (2)	34.7%	43.4%	37.5%
Gross total expense ratio (2)	40.6%	48.1%	42.2%

(1) 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 and Midrand Village units).
(2) For the calculation of net expense ratios, utility recoveries are excluded from rental revenue, whilst gross expense ratios include utility recoveries in rental revenue.

Outlook

Difficult economic conditions continue to affect the lower to middle income target market segment in which Transcend operates, with increased pressure on tenant affordability, rental escalations and property vacancies. Job losses mainly in the construction and finance sector and the continued Eskom electricity constraints for the first half of the year, along with policy uncertainty surrounding Eskom's debt restructuring, have also caused a deceleration in economic growth during 2019. These factors will further impact the economic outlook over the short- to medium-term. Despite these conditions, Transcend still expects its performance for the remaining 6 months of the year to be slightly better than last year's performance.

Material changes to the existing portfolio include the conclusion of the disposal of Acacia Place, located in Duvha, Witbank, Mpumalanga; as well as the disposal of units at Midrand Village, a freehold property located in Porcelain Road, Clayville, Gauteng. The decision to sell the Midrand Village units is part of management's strategy to sell units that are not performing nor suited to the profile of units or property held by Transcend for rental purposes; and further pay down debt to reduce the Company's current LTV ratio.

This forecast is the responsibility of the Board and 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.

Statement of profit or loss and other comprehensive income

	Unaudited 6 months ended 30 June 2019 (R'000)	Unaudited 6 months ended 30 June 2018 (R'000) re-presented
Continuing operations		
Rental income from investment properties	155 499	65 739
Recoveries of operating costs from tenants	15 459	5 301
Revenue	**170 958**	**71 040**
Property operating expenses	(56 708)	(23 298)
Impairment losses	(2 248)	(2 133)
Net operating income	**112 002**	**45 609**
Other operating expenses	(10 467)	(4 552)
Operating profit	**101 535**	**41 057**
Gain on fair value adjustment of investment properties	42 760	-
Unrealised (loss)/gain on revaluation of interest rate swaps	(10 470)	1 466
Net finance charges	(68 408)	(24 786)
Finance costs	(72 584)	(25 790)
Finance income	4 176	1 004
Profit before taxation	**65 417**	**17 737**
Taxation	-	-
Profit from continuing operations	**65 417**	**17 737**
Discontinued operation		
Profit from discontinued operation net of tax	**6 429**	**4 074**
Total comprehensive income for the period -	**71 846**	**21 811**
Earnings per share		
Basic and diluted earnings per share (cents)	22.22	32.89
Earnings per share - continuing operations		
Basic and diluted earnings per share (cents)	17.31	26.75

The results for the 6 months ended 30 June 2018 have been re-presented due to the sale of a reportable segment (Mpumalanga: Investment property – Acacia Place). The property has been classified as an asset held-for-sale and discontinued operation: Transcend concluded a sale agreement to dispose of this property, and operating segment, and has therefore presented it as a discontinued operation at 30 June 2019.

Statement of financial position

	Unaudited 30 June 2019 (R'000)	Audited 31 December 2018 (R'000) restated	Unaudited 30 June 2018 (R'000) restated
Assets			
Non-current assets	**2 617 477**	**2 591 069**	**1 221 001**
Investment properties	2 614 546	2 588 000	1 219 201
Property and equipment	2 931	3 069	1 800
			-
Current assets	**110 905**	**148 146**	**45 454**
Trade and other receivables	6 808	6 525	4 018
Cash and cash equivalents	104 097	141 621	41 436
Non-current assets held-for-sale	204 691	127 500	-
Total assets	**2 933 073**	**2 866 715**	**1 266 455**
		-	-
Equity and liabilities		-	-
Equity	**1 279 320**	**1 252 701**	**687 944**
Stated capital	1 020 934	1 020 934	632 276
Retained earnings	258 386	231 767	55 668
		-	-
Non-current liabilities	**783 508**	**722 756**	**548 338**
Interest-bearing borrowings (Note 3)	773 006	581 091	547 386
Loan from shareholder	-	140 986	-
Derivative liabilities	10 502	679	952
		-	-
Current liabilities	**868 702**	**889 861**	**30 173**
Loans from related parties	378 771	828 835	-
Interest-bearing borrowings (Note 3)	295 342	8 209	7 991
Trade and other payables	51 799	51 827	21 572
Loan from shareholder	141 949	795	-
Derivative liablities	841	195	610
Liabilities directly associated with asset held-for-sale	1 543	1 397	-
Total equity and liabilities	**2 933 073**	**2 866 715**	**1 266 455**

Statement of changes in equity

	Stated capital (R'000)	Retained earnings (R'000)	Total equity (R'000)
Unaudited balance at 1 July 2018	632 276	55 668	687 944
Total comprehensive income for the period	-	175 257	175 257
Transactions with owners			
Dividends	-	(19 959)	(19 959)
Issue of share capital	409 459		409 459
Transfer of antecedent dividend	(20 801)	20 801	-
Audited balance at 1 January 2019	1 020 934	231 767	1 252 701
Total comprehensive income for the period	-	71 846	71 846
Transactions with owners			
Dividends	-	(45 227)	(45 227)
Unaudited balance at 30 June 2019	**1 020 934**	**258 386**	**1 279 320**

Statement of cash flows		
	Unaudited 30 June 2019 (R'000)	**Unaudited 30 June 2018 (R'000)**
Cash flows from operating activities		
Profit and total comprehensive income for the period	71 846	21 811
Adjustments for:		
Finance costs	72 584	25 790
Change in fair vaule of investment property	(42 760)	-
Depreciation of property and equipment	377	120
Finance income	(4 176)	(1 005)
Acquisition and transaction fees		
Unrealised loss/(gain) on interest-rate swaps	10 470	(1 466)
Operating profit before working capital changes	**108 341**	**45 250**
Working capital changes:		
Decrease/(increase) in trade and other receivables	(283)	423
(Decrease)/increase in trade and other payables	(2 088)	(1 393)
Cash generated by operating activities	**105 970**	**44 280**
Finance income received	4 176	1 005
Finance costs paid	(73 865)	(25 408)
Income tax paid	-	(66)
Net cash from operating activities	**36 281**	**19 811**
Cash flows from investing activities		
Fittings acquired	(239)	(1 166)
Additions to investment property	(506 033)	(561)
Net cash utilised in investing activities	**(506 272)**	**(1 727)**
Cash flows from finance activities		
Interest-bearing borrowings received	481 010	-
Loans from related parties received *	450 064	-
Loans from related parties settled	(450 064)	-
Shareholder loan repaid	2 642	-
Related party loan repaid	(5 958)	
Dividends paid	(45 227)	(50 640)
Net cash utilised in financing activities	**432 467**	**(50 640)**
(Decrease)/Increase in cash and cash equivalents	(37 524)	(32 556)
Cash and cash equivalents at beginning of period	141 621	46 048
Cash and cash equivalents at end of period	**104 097**	**13 492**

* During 2018, Transcend acquired 8 properties from related parties. These were effective date transactions and the respective sales agreements became unconditional on 30 November 2018, making the effective date of the sales 1 December 2018. The risks and rewards of ownership transferred to Transcend on the effective date, however, the registration and legal transfer of these units only started taking place during the first half of 2019. As at 31 December 2018, the company recognised an increase in investment properties of R1.27 billion in respect of these properties; as well as loans with related parties of R828.84 million which were payable on transfer of the respective properties.

During the 6-month period ending 30 June 2019, 1 489 of the 2 159 units transferred in the name of Transcend. The effect of these effective date transactions is that the cash flow in respect of settling the related parties loans only occurs on legal transfer of the properties. On transfer of the properties, debt available was drawn down from the facilities secured with Standard and Nedbank. On draw down, this debt was recognised as interest-bearing borrowings on the statement of financial position and is included in the cash flows from finance activities – interest-bearing borrowings received. The cash effect of these borrowings was to settle the related parties loans of R450.06 million raised from the effective date,
1 December 2018. Additionally, these borrowings received also pertain to cash flows from investing activities and are included in the statement of cash flows as additions to investment properties purchased for which risks and rewards of ownership transferred on 1 December 2018.

SIGNIFICANT FINANCIAL STATEMENT NOTES

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed interim financial statements are prepared in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements, and the requirements of the Companies Act of South Africa. The accounting policies applied in the preparation of these unaudited condensed interim financial statements are in terms of International Financial Reporting Standards and are consistent with those applied in the previous financial statements as at 31 December 2018.

The directors are not aware of any material matters or circumstances arising subsequent to 30 June 2019 that require any additional disclosure or adjustments to the unaudited condensed interim financial statements.

The directors take full responsibility for the preparation of these unaudited condensed interim financial statements and for ensuring that the financial information has been correctly extracted from the underlying unaudited interim financial statements. These unaudited condensed interim financial statements have not been reviewed by the Company's auditors.

2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in these unaudited condensed interim financial statements are the same as those applied in the Company's financial statements as at and for the year ended 31 December 2018.

The Company has adopted IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* from 1 January 2018, which did not have a material effect on the Company's financial statements and there was consequently no restatement of any opening balances as at 1 January 2018. The Company has also applied the amendments to IAS 40 (Transfers of Investment Property) and IFRS 3 (Definition of a Business). Application of the amendments to these standards did not require any prior period adjustments.

3. CORRECTION OF ERROR OF NON-CURRENT VS CURRENT CLASSIFICATION OF INTEREST-BEARING BORROWINGS

During 2019, the Company discovered that the short-term portion and long-term portion of interest-bearing borrowings had been erroneously classified and disclosed in its financial statements since 2017. As a consequence, the short-term portion of interest-bearing borrowings has been overstated and the long-term portion of the interest-bearing borrowings has been understated. The errors have been corrected by restating each affected financial statement line item for prior periods. The following tables summarise the impact on the Company's financial statements:

STATEMENT OF FINANCIAL POSITION

01 January 2018

	As previously reported (R'000)	Adjustment (R'000)	As restated (R'000)
Non-current liabilities			
Interest-bearing borrowings	502 893	44 301	547 194
Current liabilities			
Short-term portion of interest-bearing borrowings	52 431	(44 301)	8 130

30 June 2018

	As previously reported (R'000)	Adjustment (R'000)	As restated (R'000)
Non-current liabilities			
Interest-bearing borrowings	502 910	44 476	547 386
Current liabilities			
Short-term portion of interest-bearing borrowings	52 467	(44 476)	7 991

31 December 2018

	As previously reported (R'000)	Adjustment (R'000)	As restated (R'000)
Non-current liabilities			
Interest-bearing borrowings	536 376	44 715	581 091
Current liabilities			
Short-term portion of interest-bearing borrowings	52 924	(44 715))	8 209

4. SECTORAL SPLIT

	2019		2018	
Based on:	GLA (%)	Book value	GLA (%)	Book value
Residential	100	100	100	100

5. LEASE EXPIRY PROFILE

2019		
Based on:	Gross Leasable Area (%)	Gross Rental (%)
Vacancy	5.8	5.7
Monthly	89.8	90.0
31 December 2019	4.2	4.2
30 June 2020	0.2	0.2
	100	100

2018		
Based on:	Gross Leasable Area (%)	Gross Rental (%)
Vacancy	10.5	9.1
Monthly	56.6	58.1
31 December 2018	18.6	18.8
30 June 2019	14.2	13.9
31 December 2019	0.1	0.1.
	100	100

6. PROPERTY OPERATING EXPENSES

	Unaudited 6 months ended 30 June 2019 (R'000)	Unaudited 6 months ended 30 June 2018 (R'000)
Utilities:	21 725	9 789
Water	3 596	1 798
Electricity	5 942	2 428
Rates	6 920	2 915
Sewerage	3 046	1 451
Refuse	2 221	1 197
	-	
Property management fees	11 353	4 934
Levies	5 942	2 632
Security	3 006	1 690
Repairs and maintenace	8 221	3 196
Payroll	1 705	744
Allowance for doubtful debts	1 201	(1 398)
Other property operating expenses	3 555	1 711
	56 708	23 298

7. SEGMENTAL ANALYSIS

Segmental information

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 during 2019. This property, and operating segment, has therefore been presented as a discontinued operation at 30 June 2019.

Summarised segmental analysis					
For the period ended 30 June 2019					
R'000					
	Mpumalanga	**Western Cape**	**Gauteng**	**Reconciliation**	**Total**
Revenue	10 063	10 829	160 129	-	181 021
Property operating expenses	(2 719)	(3 582)	(52 385)	(741)	(59 427)
Gain on fair value adjustment of investment property	-	-	42 760	-	42 760
Profit and total comprehensive income for the period	6 429	6 207	161 405	(88 738)	85 303
Investment property	-	139 865	2 474 681	-	2 614 546
Non-current assets held-for-sale	127 539	-	77 152	-	204 691
Other assets	3 159	124	4 369	106 184	113 836

For the period ended 30 June 2018					
R'000					
	Mpumalanga	**Western Cape**	**Gauteng**	**Reconciliation**	**Total**
Revenue	7 013	8 813	62 227	-	78 053
Property operating expenses	(2 822)	(3 605)	(19 693)	-	(26 120)
Gain on fair value adjustment of investment property	-	-	-	-	-
Profit and total comprehensive income for the period	4 074	4 452	41 056	(27 771)	21 811
Investment property	127 529	134 745	956 927	-	1 219 201
Other assets	2 462	2 467	11 484	30 841	47 254

Reconciliation of profit for the year to distributable earnings	**Unaudited 6 months ended 30 June 2019 (R'000)**	**Unaudited 6 months ended 30 June 2018 (R'000)**
Profit for the year attributable to Transcend shareholders *	71 846	17 737
Unrealised loss/(gain) on interest-rate swaps	10 470	(1 466)
Change in fair value of investment properties	(42 760)	-
Surplus working capital available for distribution	-	-
Acquisition and transaction costs expensed	173	-
Distributable income for the period **	39 729	16 271
Distribution per share (cents)	30.25	30.10
	-	

* Attributable to continuing and discontinued operations.
** The adjustments made to profit to derive the amount avaliable for distribution to shareholders have not been audited.

8. INVESTMENT PROPERTIES

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

The properties were valued as at 31 December 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 within 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.

Except for Midrand Village, the fair values of investment properties remain unchanged as at 30 June 2019, as management has assessed that the assumptions underlying the 31 December 2018 have remained the same. The net contractual income as at 30 June 2019 is in line with the assumptions used in the valuations, and the capitalisation rates remain unchanged. Acacia Place and Midrand Village units are in the process of being disposed of and have been revalued to their respective fair values based on the contractual selling prices of the property and/or units. These properties have been reclassified from investment properties to non-current assets held-for-sale and are measured at their respective fair values.

Key assumptions used to determine the value of the properties reclassified to non-current assets held-for-sale
Property selling price:
Acacia Place consists of 325 units and all units have been classified as a non-current asset held-for-sale. This property is valued at its contractual sales price less cost to sell of R127.5 million.

Unit selling prices:
Midrand Village consists of 225 freehold units of which 89 meet the criteria to be classified as held for sale. At 30 June 2019, the Company had entered into individual sales agreements with purchasers in respect of 89 units at Midrand Village, with an aggregate total consideration of R77.15 million. The average selling price per unit is approximately R866 871 and will be satisfied by each respective purchaser by way of an end-user mortgage bond. The transfer of each unit shall be effected as soon as each purchaser has complied with all of its obligations set out in the agreements. This equates to 40% of the total units at the property and on this basis, Management has revised its assumptions in respect of the unit fair value in use being through the sale of units to the open market. An average unit price of R867 712 has been used to revalue the property to its fair value, being the sales price in the open market less the cost to sell each unit. Consequently, a total fair value gain of R42.76 million on investment property has been recognised at 30 June 2019 which increases the value of Midrand Village to R195.16 million.

For all investment properties, their current use equates to the highest and best use.

9. FINANCIAL INSTRUMENT FAIR VALUE DISCLOSURES

Financial assets and liabilities measured at fair value
The Company's principal financial liabilities are interest-bearing borrowings, classified as financial liabilities measured at amortised cost, 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 trade and other receivables and cash and cash equivalents classified as financial assets measured at amortised cost and trade and other payables classified as financial liabilities measured at cost, that arise directly from its operations. The carrying amounts of these financial assets and liabilities reasonably approximate their fair value as they are short term in nature.

IFRS 13 requires that an entity discloses 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.

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 the fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

Figures in R'000s
2019

	Fair value	Level 1	Level 2	Level 3
Assets				
Investment properties	2 614 546	-	-	2 614 546
Non-current assets held-for-sale	204 691	-	-	204 691
	2 819 237	-	-	2 819 237
Liabilities				
Derivative liabilities	(11 343)		(11 343)	
	(11 343)	-	(11 343)	-

During the 6 months ending 30 June 2019 there was a change in the valuation techniques used by management for investment properties with respect to Midrand Village. For the remaining units at Midrand Village which are still classified as investment properties and are in the process of being disposed of, the fair value of the units has been calculated as the fair value less cost to sell of a unit. There have, however, been no transfers between level 1, level 2 and level 3 during the six months under review.

The carrying amounts of financial assets and financial liabilities reasonably approximate their fair value.

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, 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 of interest rate swaps is calculated as the present value of the estimated future cash flows. Estimates of 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 30 June 2019, the derivative financial liabilities relating to the interest rate swaps were fair valued, resulting in an increase of R9.78 million (2018 increase of R0.13 million) in the liability and a corresponding fair value loss of R9.2 million (2018: gain of R1.47 million) in the unaudited condensed interim statement of profit or loss and other comprehensive income.

10. EARNINGS PER SHARE

	Unaudited 6 months ended 30 June 2019 (R'000)	Unaudited 6 months ended 30 June 2018 (R'000)
Reconciliation of basic earnings to headline earnings		
Profit for the year attributable to Transcend shareholders	71 846	21 811
Change in fair value of investment properties	(42 760)	
Headline earnings attributable to Transcend shareholders	**29 086**	**21 811**
Profit from discontinued operation net of tax	6 429	4 074
Actual number of shares in issue ('000)	130 895	66 307
Weighted average number of shares in issue ('000)	130 895	66 307
Basic and diluted earnings per share (cents)	22.22	32.89
Basic and diluted earnings per share (cents) - continuing operations	17.31	26.75
Headline and diluted earnings per share (cents)	22.22	32.89

11. RELATED PARTIES

Relationships

Transcend is 45.1% owned by the South African Workforce Housing Fund PVE (SA), a South African en commandite partnership duly represented by its general partner, the South African Workforce Housing Fund SA GP (RF) Proprietary

Limited (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) Proprietary Limited ("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 Proprietary Limited ("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 R6.82 million (30 June 2018: R2.45 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 Proprietary Limited ("IHS PM"), a private company registered and incorporated in accordance with the laws of South Africa. A property management agreement was entered into by Transcend and IHS PM on 16 October 2016. IHS PM charged Transcend property management fees of R11.9 million (30 June 2018: R5.46 million) during the year in accordance with the property management agreement.

34.9% of the Company's shares are held by Emira Property Fund Limited ("Emira"). In addition to its shareholding, Emira also has a shareholder's loan of R140.69 million with Transcend at 30 June 2019. 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 for the acquisition of 2 159 units in December 2018. The purchase considerations are funded partially through equity and debt on transfer of the properties. From 1 December 2018, interest is payable to IHS Res 1 on the balance owing at an effective rate of 9.2%, with interest payable monthly in arrears on the balance of the loan outstanding. The total outstanding related party loan balance at 30 June 2019 amounts to R378.77 million and has been classified as current as it is expected to be paid within 2019, upon transfer of the remaining 670 units. Included in this balance is a price escalation of R37.31 million, of which R2.91 million is a contingent settlement provision based on management's estimate of when the remaining units will transfer to the Company. The loan remains unsecured as at 30 June 2019, however, will be secured through new debt facilities (remainder of facility D and available facility E) upon the issue of guarantees by Standard Bank and Nedbank prior to the remaining properties transferring to Transcend. Facility D consists of a 3-year tranche and a 5-year tranche and Facility E is an overdraft facility of R150 million in respect of these units. Investment properties recognised in respect of these remaining units hold a fair value of R621.3 million at 30 June 2019.

On the transfer of the remaining 670 units to Transcend, the existing bonds over the properties will be cancelled and new bonds will be registered to the value of R339.82 million.

Transcend does not have any subsidiaries.

12. SUBSEQUENT EVENTS

In line with IAS 10 *Events After the Reporting Date*, the declaration of an interim dividend of 30.25 cents per share occurred after the end of the interim reporting period.

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

13. LIQUIDITY

As at 30 June 2019, the Company had a positive net asset value. Its current liabilities exceed its current assets by R757.8 million (30 June 2018: R29.2 million). The cause of current liabilities exceeding current assets is due to the loan from the related party, IHS Res 1, loan from shareholder, and the Facility A, Tranche 1 and Facility B of long-term borrowings becoming due and payable in the next 12 months. Loans from related parties amount to R378.77 million and these were incurred in the acquisition of various properties which became effective on 1 December 2018. Transcend has secured a further

R340 million of external interest-bearing borrowings with Standard Bank and Nedbank which is available and will be drawn on upon the transfer of the remaining units to Transcend. The balance of loans payable will be repaid with excess cash.

Facility A, Tranche 1 and Facility B both expire in January 2020. Transcend intends to refinance these facilities with Standard Bank.

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 interim dividend. Future cash reserves used to settle current liabilities will be generated primarily through property operating income.

14. PAYMENT OF INTERIM DIVIDEND

The Board has approved, and notice is hereby given of an interim dividend of 30.24929 cents per share for the six months ended 30 June 2019 (2018: 30.09880 cents per share).

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 24.19944 cents per share.

A reduced dividend withholding rate in terms of the applicable DTA may only be relied on if the non-resident shareholder has provided the following forms to their CSDP or broker, as the case may be, in respect of uncertificated shares, or the Company, in respect of certificated shares:

a a declaration that the dividend is subject to a reduced rate as a result of the application of a DTA; and

b) a written undertaking to inform their CSDP, broker or the Company, as the case may be, should the circumstances affecting the reduced rate change or the beneficial owner cease to be the beneficial owner,

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

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

Declaration date	Thursday, 8 August 2019
Last day to trade *cum* dividend	Tuesday, 27 August 2019
Shares trade *ex* dividend	Wednesday, 28 August 2019
Record date	Friday, 30 August 2019
Payment date	Monday, 2 September 2019

Share certificates may not be dematerialised or materialised between Wednesday, 28 August 2019 and Friday, 30 August 2019, both days inclusive.

In respect of dematerialised shareholders, the dividend will be transferred to the CSDP/broker accounts on Monday, 2 September 2019. Certificated shareholders' dividend payments will be deposited on or about Monday, 2 September 2019.

Shares in issue at the date of declaration of this dividend: 130 894 793.

Transcend's income tax reference number: 9015377253

By order of the Board

Solly Mboweni
Chief Executive Officer

Myles Kritzinger
Chief Financial Officer

Johannesburg
8 August 2019

Registered office: 54 Peter Place, Block C, Cardiff House, 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: CorpStat Governance Services Proprietary Limited

Directors:
Robert Reinhardt Emslie* (Chairperson); Solly Mboweni (Chief Executive Officer); Myles Kritzinger (Chief Financial Officer); Vanessa Perfect (Chief Operating Officer); Faith Nondumiso Khanyile*; Michael Simpson Aitken*; Michelle Dickens*; Michael Louis Falcone**; Robert Nicolaas Wesselo**; Geoffrey Michael Jennett**

* Independent non-executive director
** Non-executive director