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"**)

COVID-19 UPDATE, UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020 AND CASH DISTRIBUTION

COVID-19 UPDATE
The COVID-19 pandemic ("the Pandemic") has given rise to unprecedented circumstances globally, as well as in the South African financial markets. During this time, the safety and well-being of Transcend's tenants, employees and stakeholders remain the priority of the Company's board of directors ("the Board") in its response to the Pandemic, particularly as lockdown regulations ease and the cases of infection peak in South Africa.

Management and the Board are aware that the negative effects of the Pandemic on the South African economy and the well-being of its citizens may continue to affect business and operating conditions in both the short- and the long-term. Transcend is in constant communication with all its stakeholders to keep abreast of their circumstances as they respond to their own challenges brought about by the Pandemic.

The business continues to focus its efforts on maintaining a sound financial position and can meet all its debt obligations, and other financial obligations to its suppliers and staff. Transcend's portfolio continues to generate strong cashflows at a property level, proving residential property as a defensive asset class.

Management and the Board extend their appreciation to tenants, staff, service providers, property managers and all other stakeholders for their commitment and patience during the Pandemic.

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020 COMMENTARY

Performance measures

Distributable earnings per share (cents):	27.89 (8.99% down from the prior corresponding period)
Distribution per share (cents)	12.10 (60% down from the prior corresponding period)
Net Asset Value per share (Rand value):	R8.81
Portfolio unit occupancy:	95.3%*
Portfolio collections	94.6%*
Portfolio arrears:	1.89%*

*Stabilised portfolio year-to-date 30 June 2020 – excludes investment properties which are currently being disposed of, namely Acacia Place, Midrand Village units and De Velde units. Total portfolio unit occupancy of all properties is 94.1% year-to-date 30 June 2020.

Results
Transcend's distributable income for the reporting period is R36.50 million (30 June 2019: R40.11 million) and distributable earnings per share ("DEPS") is 27.89 cents (30 June 2019: 30.64 cents), being 8.99% down when compared to the prior corresponding period DEPS. The decrease in distributable income (and DEPS) can be largely attributed to the once-off impairment of R3.05 million for occupational rent receivable in respect of Acacia Place.

Transcend uses distribution per share ("DPS") as its relevant measurement of financial results. On 6 April 2020, Transcend retracted the dividend guidance previously given due to the uncertainty surrounding the financial impact of the Pandemic on Transcend, its tenants and other stakeholders. Given the ongoing uncertainty regarding the future effects of the Pandemic on the South African economy and economic well-being of its citizens, as well as the impact thereof on the Company's financial performance and position, the Board remains cautious and has decided to conserve its current cash position in declaring a reduced interim dividend.

On 7 August 2020, the Board approved an interim dividend of 12.09972 cents per share for the period ended 30 June 2020. (30 June 2019: 30.24929 cents per share). The interim DPS is 40% of the prior corresponding period DPS and shareholders are referred to the trading statement released on SENS on 11 August 2020, wherein the Company advised that the 30 June 2020 DPS would differ by 60% from that of the prior corresponding period. The Board, therefore, has approved a reduced interim DPS amidst the Pandemic in order to ensure that, given the current and future market uncertainty, Transcend retains suitable cash reserves to cover various short-term obligations and safeguard against unforeseeable circumstances.

Management and the Board continues to focus its efforts on good cash management by maintaining sound financial and liquidity positions. Monthly and quarterly rental collections and occupancies remain relatively uninterrupted to date due to Transcend maintaining its strategy of owning well-located, quality properties in high demand areas, as well as proactive property management. However, tenants are currently facing increased economic pressures and further challenges around future consumer affordability remains a concern.

The Board will formally revisit Transcend's distribution policy later in 2020 and will provide further guidance regarding its forecast distribution for the full period ending 31 December 2020 once there is greater certainty on the impact of COVID-19 on the business and performance of Transcend.

Nature of business
Transcend is a specialist Real Estate Investment Trust ("REIT") listed on the Main Board of the JSE, with a residential-only property portfolio.

Property portfolio
Transcend holds 4 687 units across a portfolio of 23 directly owned properties valued at R2.71 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. 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.

The combined gross lettable area ("**GLA**") is 264,994m^2 as at 30 June 2020.

Geographically, the properties are located in the following provinces:

Gauteng	78.2%
Western Cape	15.7%
Mpumalanga*	6.1%

The above allocation is based on 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 and discontinued operation.

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

Acquisitions
Transcend has not made any new acquisitions during the period 1 January 2020 to 30 June 2020.

Disposals

Acacia Place

Acacia Place is a 325-unit property located in Duvha Park, Witbank, Mpumalanga. During 2018, this property was identified by management as an under-performing property due to 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") and has classified the property as held-for-sale, carried at a fair value of R110 million at 30 June 2020.

There has been a further delay in the sale of this property beyond a period of 12-months, due to the buyer's funding conditions precedent to the sales agreement not being fulfilled timeously. This delay in funding approvals is a direct result of market uncertainty caused by the Pandemic. The property now has an anticipated transfer date of 30 September 2020 and the buyer and Transcend remain committed to the plan to sell the asset. Consequently, management has impaired the occupational rent receivable from Instratin of R3.05 million until there is more certainty surrounding the funding and transfer of this property and the recoverability of the amount receivable.

The performance of this property has improved during the past 12-months and at 30 June 2020 Acacia Place's year-to-date occupancy has recovered to 94.7%.

Midrand Village units

Management is in the process of selling units at the Midrand Village investment property on a unit-by-unit basis. The property consisted of 225 freehold units located in Clayville, Gauteng. The property was acquired as investment property and registered into the name of Transcend in June 2019. During 2019, management decided that the units could be better realised through sale rather than held by Transcend for rental purposes. At 30 June 2020, 75 of the Midrand Village units have been sold and transferred to buyers with a further 128 offers to purchase (sales agreements) in place on that date, and 22 units remain to be sold.

All the remaining units at Midrand Village are classified as non-current assets held-for-sale as a significant portion of the total units have been sold (67% of units have either sold and transferred or have unconditional sales agreements in place) and the requirements of IFRS 5 have been satisfied as there is a large degree of certainty that these units will be sold and transferred to buyers within 12 months from 30 June 2020.

De Velde units

The De Velde investment property consisted of 310 sectional title units located in Somerset West, Western Cape. Similar to Midrand Village, this property was acquired as investment property by Transcend and these units transferred and registered into the name of Transcend on 31 July 2019. During 2019, management took a decision to initially dispose of any vacant units at this property. The apartments have been marketed to third-party home-owner buyers and at 30 June 2020, 5 units have been sold and transferred with a further 18 unconditional offers to purchase in place on the remaining units.

For De Velde, only those 18 units with unconditional offers in place have been classified as an asset held-for-sale. Although management will continue to sell the balance of units it is management's expectation that most of the remaining units will only be sold beyond a period of 12 months. As such, the balance of the units remains classified as investment properties at 30 June 2020.

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

Occupancies and arrears

Based on existing leases at 30 June 2020, the total portfolio's unit occupancy rate is 94.1%. Excluding disposal properties (Acacia Place, Midrand Village units and De Velde units), the occupancy rate for the remaining 20 properties is 95.3%. It is expected that the vacancies of the stabilised portfolio will remain between a range of 3% to 8%.

The stabilised portfolio has an average collection of rental income of 94.6% and arrears of 1.89% of net operating income for the period ended 30 June 2020. For the total portfolio, these ratios are 94.4% and 1.86% respectively.

Funding
As at 30 June 2020, the following interest-bearing borrowings with The Standard Bank of South Africa Limited ("Standard Bank") and Nedbank Limited ("Nedbank") were in place:

Standard Bank		
Facility drawn on	**Notional Amount (R'000)**	**Margin over JIBAR**
Facility A, Tranche 1: Maturity of 31 January 2023 (3-year)*	284,000	1.85%
Facility A, Tranche 2: Maturity of 31 January 2022 (5-year)	274,000	2.35%
Facility C: Maturity of 23 August 2021 (3-year)	108,960	2.15%
Syndication Agency – Standard Bank & Nedbank ("Agency")		
Facility drawn on	**Notional Amount (R'000)**	**Margin over JIBAR**
Facility D, Tranche 1: Expiry from 9 April 2022 (3-year)	295,000	1.90%
Facility D, Tranche 2: Expiry from 9 April 2024 (5-year)	295,000	2.25%
Facility E: Expiry 29 August 2022 (3-year)	108,520	Prime less 1%

*In December 2019, Transcend refinanced Facility A, Tranche 1 (R274 million) and Facility B (R10 million) with Standard Bank under a single facility of R284 million (new Facility A, Tranche 1) – interest only loan with a variable rate at 3-month JIBAR plus 1.85%, effective from 31 January 2020 with a maturity date of 31 January 2023.

Facility A (Tranches 1 and 2) and Facility C are held directly with Standard Bank only. Facility D (Tranches 1 and 2) and Facility E are held with Standard Bank and Nedbank under a syndication agency agreement ("Agency"). The total facilities are secured by the properties owned by Transcend with a carrying value of R2.71 billion.

The Standard Bank facilities (Facilities A and C) are secured by properties owned by Transcend with a fair value of R1.36 billion. The Agency facilities (Facilities D and E) are secured by properties owned by Transcend with a fair value of R1.35 billion. This security includes Acacia Place, Midrand Village units and De Velde units that are classified as non-current assets held-for-sale and collectively valued at their respective sales price less cost to sell of R110 million, R130.90 million and R20.49 million (collectively R261.39 million). To date, 75 of the Midrand Village units and 5 of the De Velde units have been sold and transferred to third-party buyers. A portion of the net sales proceeds received from the disposal of those units has been applied to Facility E, and reduced the notional amount drawn on of R150 million to a capital balance owing of R108.52 million at 30 June 2020. The security in respect of these sales has been adjusted accordingly for the remaining units. Similarly, after the sale and transfer of Acacia Place and units at Midrand Village and De Velde, the security for the remaining property and units will also be adjusted accordingly.

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

The administration fee of R2.72 million on the raising of the Standard Bank facilities A and C, was capitalised and is amortised over the average term of the respective loans. Administration and structuring fees of R5.64 million on facility D and facility E 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 2020.

As at 30 June 2020, the following interest rate swaps with Standard Bank and Nedbank were in place:

STANDARD BANK SWAPS		

Interest rate applicable	Notional Amount (R'000)	Rate
Interest rate swap: Expiry 30 January 2023	137,000	6.60%
Interest rate cap: Expiry 30 January 2023	137,000	6.60%
Interest rate swap: Expiry 15 May 2023	92,500	6.55%
Interest rate cap: Expiry 15 May 2023	92,500	6.55%
Interest rate swap: Expiry 17 May 2023	92,500	7.09%
Interest rate cap: Expiry 17 May 2023	92,500	7.09%
Interest rate swap: Expiry 24 April 2023	137,500	7.29 %
Interest rate swap: Expiry 24 April 2023	195,000	7.10%

NEDBANK SWAPS		
Interest rate applicable	**Notional Amount (R'000)**	**Rate**
Interest rate swap: Expiry 15 May 2023	92,500	6.96%
Interest rate swap: Expiry 15 May 2024	287,500	6.84%

Percentage of debt hedged

It is the Board's policy to economically hedge at least 70% of the Company's exposure to interest rate risk. At 30 June 2020, 75.4% of the Company's interest rate exposure on the various facilities was hedged. The total Transcend external bank borrowings is R1.37 billion at 30 June 2020. Existing interest rate swaps with a notional amount of R1.04 billion were restructured in April and May 2020 with Standard Bank and Nedbank to hedge this debt exposure.

Due to the significant reductions in the repo rate during the first half of 2020, there has been a material increase in the liability for derivatives relating to Transcend's interest-rate SWAPS. The South African Reserve Bank ("SARB") initially lowered the rate in January from 6.50% to 6.25% and implemented two reductions in the rate of 100 basis points each in March and April 2020. Further reductions of 50 and 25 basis points were made in May and July 2020, respectively.

Gearing

Transcend's loan-to-value ratio ("LTV") is 49.1% (30 June 2019: 47.6%), which is slightly higher than prior year gearing levels but within the senior debt covenant requirements of a 55% LTV. Investment properties' balances have decreased from 2019 due to various unit disposals at Midrand Village and De Velde, as well as a fair value reduction of R17.57 million in respect of Acacia Place. Although this (ratio) falls outside the targeted long-term range of 30% to 40% LTV, management plans to reduce this LTV in the short-term to a targeted range of 40% to 45% by using further proceeds from the sale of Acacia Place, Midrand Village units and De Velde units to pay down on existing debt.

The Company's valuation policy is to have at least one third of its portfolio valued annually at year end by external registered valuers. Accordingly, Transcend's portfolio has not been revalued at 30 June 2020. During the 6-month reporting period, Transcend's portfolio has performed well and the business continues to generate strong cashflows at a property level. Management will reassess the portfolio for revaluation during the next 6-month reporting period ending 31 December 2020.

Summary of financial performance

	30 June 2020	31 December 2019	30 June 2019
Dividend per share (cents)	12.10	34.89	30.25
Shares in issue (000)	130 895	130 895	130 895
Net Asset Value per share (Rand value)	8.81	9.55	9.77
LTV (*)	49.1%	47.0%	47.6%
Net property expense ratio (**)	31.6%	27.8%	28.0%
Gross property expense ratio (**)	36.7%	32.7%	34.5%

Net total expense ratio (**)	38.7%	34.4%	34.7%
Gross total expense ratio (**)	43.3%	38.9%	40.6%

(*) The LTV is calculated by dividing property backed interest-bearing borrowings (net of cash on hand) by the total value of investment property, including assets held-for-sale (Acacia Place, Midrand Village units and De Velde units).
Note: Interest bearing-borrowings excludes the subordinated shareholder's loan.
(**) For the calculation of net ratios, utility recoveries are excluded from rental revenue, whilst gross ratios include utility recoveries in rental revenue.

Outlook

The Pandemic has had a significant impact on the South African public, its economy, and its financial markets with an expected over 3 million jobs to be lost due to the consequent nationwide lockdown. The South African listed property stocks have been one of the most severely affected sectors by current circumstances, having lost around 40% of their value when compared to other asset classes. The South African economy expects close to double-digit contraction in GDP for 2020 – the largest contraction in nearly 90 years – with a slow recovery forecast for the next 3 to 4 years. Inflation will likely register around 3% in 2020, however, a drop-off in global economies, commodity price increases, weaker oil price and a stronger Rand have shielded any sudden increase in inflation.

As an open economy that is reliant on exports, South Africa has been impacted by both the collapse in global demand and the restrictions of economic activity; and is yet to see the impact of the infrastructure spending programme announced by President Ramaphosa earlier this year. With respect to Transcend, this, coupled with increased tenant pressures and concern around future tenant affordability, remains to be a major consideration for management and the Board over the short- to medium-term.

The month of July also saw the annual increase in municipal utility tariff's and costs. Higher than inflationary escalations imposed by various councils during a difficult economic climate are expected to negatively impact on consumer spending and Transcend's ability to implement reasonable escalations on rental income in the short-term. Management is proactively engaging with the respective councils to address these cost increases which may severely impact on already stretched property end-users. Management will also continue to focus on cost management and identify portfolio-wide cost efficiencies to support its growth strategy.

On the positive side, Government's COVID-19 economic support package directs R500 billion to the problems faced by many individuals and businesses. The SARB has eased the economic burden by reducing interest rates over the first half of 2020 and supported liquidity in the domestic bond market. More than 2 million customers have received around R30 billion in relief from their commercial banks through various restructures, payment holidays and moratoriums. Insurers and medical aid schemes have provided premium holidays and landlords have provided rental relief. These interventions should assist in helping businesses to continue to trade and, therefore, save most needed jobs.

Year to date, the Company's portfolio has performed well, demonstrating the resilience of the residential property market despite difficult economic conditions. Although Transcend's portfolio provides consistent performance, there remains uncertainty ahead as the knock-on effect of the Pandemic continues to devastate the world and global markets. Management will continue to engage with its tenants in the months to come to ensure that proactive and necessary measures can be taken by the Company to assist them if required.

Going forward the Company will continue to focus its efforts on optimising current levels of performance through high building occupancies, strong rental collections and effective cost management, whilst taking into consideration the impact of the Pandemic on both the economy and its tenants for the second half of the year.

For the remainder of the financial year, the Company aims to achieve similar DEPS to this reporting period. However, this performance will depend on tenants meeting their obligations to the Company as well as Transcend's own ability to maintain similar occupancy and collection levels.

Statement of profit or loss and other comprehensive income

	Notes	**Unaudited 6 months ended 30 June 2020 (R'000)**	**Unaudited 6 months ended 30 June 2019 (R'000)**
Continuing operations			
Rental income from investment properties		156 072	155 499
Recoveries of operating costs from tenants *		12 651	15 459
Revenue		**168 723**	**170 958**
Property operating expenses	6	(57 293)	(56 708)
Impairment losses		(4 609)	(2 248)
Other income		2 122	-
Net operating income		**108 943**	**112 002**
Other operating expenses		(11 198)	(10 467)
Operating profit		**97 745**	**101 535**
Gain on fair value adjustment of investment properties		1 473	42 760
Unrealised (loss)/gain on revaluation of interest rate swaps		(71 222)	(10 470)
Net finance charges		(65 123)	(68 408)
Finance costs		(67 014)	(72 584)
Finance income		1 891	4 176
(Loss)/profit before taxation		(37 127)	**65 417**
Taxation		-	-
(Loss)/profit from continuing operations		(37 127)	**65 417**
Discontinued operation			
(Loss)/profit from discontinued operation net of tax		**(14 082)**	**6 429**
Total comprehensive income for the period		**(51 209)**	**71 846**
Earnings per share			
Basic and diluted earnings per share (cents)	9	(26.82)	22.22
Earnings per share - continuing operations			
Basic and diluted earnings per share (cents)	9	(29.49)	17.31

*Recoveries of operating costs from tenants consists of the recovery of certain utilities from tenants, including electricity, water, rates, and sewer. This amount is collected from individual tenants monthly.

Statement of financial position

	Notes	Unaudited 30 June 2020 (R'000)	Audited 31 December 2019 (R'000)
Assets			
Non-current assets		**2 455 618**	**2 462 715**
Investment properties	4	2 453 467	2 460 174
Property and equipment		2 151	2 541
Current assets		**39 549**	**80 214**
Trade and other receivables		5 879	6 622
Cash and cash equivalents		33 670	73 592
Non-current assets held-for-sale	5	261 384	305 571
Total assets		**2 756 551**	**2 848 500**
Equity and liabilities			
Equity		**1 153 048**	**1 249 925**
Stated capital		1 020 934	1 020 934
Retained earnings		132 114	228 991
Non-current liabilities		**1 446 056**	**1 488 826**
Interest-bearing borrowings		1 360 439	1 382 356
Loan from shareholder		-	92 774
Derivative liabilities		85 617	13 696
Current liabilities		**155 909**	**106 409**
Interest-bearing borrowings		7 026	7 650
Trade and other payables		45 436	44 306
Loan from shareholder		103 447	53 754
Derivative liabilities		-	699
Liabilities directly associated with asset held-for-sale		1 538	3 340
Total equity and liabilities		**2 756 551**	**2 848 500**

Statement of changes in equity

	Stated capital (R'000)	Retained earnings (R'000)	Total equity (R'000)
Unaudited balance at 1 July 2019	**1 020 934**	**258 386**	**1 279 320**
Total comprehensive income for the period	-	10 201	10 201
Transactions with owners			
Dividends	-	(39 596)	(39 596)
Audited balance at 1 January 2020	**1 020 934**	**228 991**	**1 249 925**
Total comprehensive income for the period	**-**	**(51 209)**	(51 209)
Transactions with owners			
Dividends	-	(45 668)	(45 668)
Unaudited balance at 30 June 2020	**1 020 934**	**132 114**	**1 153 048**

Statement of cash flows

	Unaudited 30 June 2020 (R'000) 6 months	Unaudited 30 June 2019 (R'000) 6 months
Cash flows from operating activities		
(Loss)/profit and total comprehensive income for the period	(51 209)	71 846
Adjustments for:		
Finance costs	67 014	72 584
Change in fair value of investment property	16 098	(42 760)
Depreciation of property and equipment	390	377
Finance income	(1 891)	(4 176)
Unrealised loss/(gain) on revaluation of interest rate swaps	71 222	10 470
Operating profit before working capital changes	**101 624**	**108 341**
Working capital changes:		
Decrease/(increase) in trade and other receivables	907	(283)
Decrease in trade and other payables	(672)	(2 088)
Cash generated by operating activities	**101 859**	**105 970**
Finance income received	1 728	4 176
Finance costs paid	(65 237)	(73 865)
Net cash from operating activities	**38 350**	**36 281**
Cash flows from investing activities		
Proceeds from sales of non-current assets held-for-sale	38 889	-
Additions to investment property	(4 094)	(506 033)
Property and equipment acquired	-	(239)
Net cash generated/(utilised) in investing activities	**34 795**	**(506 272)**
Cash flows from finance activities		
Interest-bearing borrowings (settled)/received	(23 632)	481 010
Shareholder loan (settled)/received	(43 767)	2 642
Loans from related parties received *	-	450 064
Loans from related parties settled	-	(450 064)
Related party loan repaid	-	(5 958)
Dividends paid	(45 668)	(45 227)
Net cash (outflow)/inflow on financing activities	**(113 067)**	**432 467**
Decrease in cash and cash equivalents	(39 922)	(37 524)
Cash and cash equivalents at beginning of period	73 592	141 621
Cash and cash equivalents at end of period	**33 670**	**104 097**

* 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 into 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 Bank 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 71 of 2008. 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 2019.

There are new or revised accounting standards and interpretations in issue that are not yet effective but that are material to the business of the Company and may have an impact on future financial statements. The Company has adopted all new and revised IFRSs that are relevant to its operations and effective for reporting periods beginning on or after 1 January 2020. The following amendments have been early adopted as at 30 June 2020:

Definition of Material - Amendments to IAS 1 and IAS 8 (amendment effective 1 January 2020)

The IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Company does not expect the amendments to have a significant impact on the annual financial statements, the introduction of the term 'obscuring information' in the definition could potentially impact how materiality judgements are made in practice, by elevating the importance of how information is communicated and organised in the annual financial statements.

Application of the above standards did not have an impact on the Company's financial reporting.

A number of other new standards are also effective 1 January 2020 but do not have a material effect on the Company's financial statements.

The directors are not aware of any material matters or circumstances arising subsequent to 30 June 2020 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. SECTORAL SPLIT

	2020		**2019**	
Based on:	GLA (%)	Book value	GLA (%)	Book value
Residential	100	100	100	100

3. LEASE EXPIRY PROFILE

2020		
Based on:	Gross Leasable Area (%)	Gross Rental (%)
Vacancy	5.9	5.9
Monthly	94.1	94.1
31 December 2020	0.0	0.0
30 June 2021	0.0	0.0
	100	100

2019		
Based on:	Gross Leasable Area (%)	Gross Rental (%)
Vacancy	5.8	5.6
Monthly	89.8	90.0
31 December 2019	4.2	4.2
30 June 2020	0.2	0.2
	100	100

4. INVESTMENT PROPERTIES

	Unaudited 6 months ended 30 June 2020
Opening fair value of Investment properties	2 460 174
Fair value adjustments on investment properties	1 300
Capitalised expenditure	2 936
Net investment properties transferred to non-current assets held-for-sale	(10 942)
Closing balance	2 453 467

5. INVESTMENT PROPERTIES CLASSIFIED AS NON-CURRENT ASSETS HELD FOR SALE

	Unaudited 6 months ended 30 June 2020
Opening fair value of property assets	305 571
Fair value adjustments on assets held-for-sale	(17 398)
Capitalised expenditure	1 158
Net investment properties transferred to non-current assets held-for-sale	10 942
Disposals	(38 889)
Closing balance	261 384

6. PROPERTY OPERATING EXPENSES

	Unaudited 6 months ended 30 June 2020 (R'000)	Unaudited 6 months ended 30 June 2019 (R'000)
Utilities:	28 330	21 725
Water	6 857	3 596
Electricity	8 377	5 942
Rates	6 655	6 920
Sewerage	3 132	3 046
Refuse	3 309	2 221
Property management fees	11 279	11 353
Levies	5 924	5 942
Security	3 242	3 006
Repairs and maintenace	3 563	8 221
Payroll	1 679	1 705
Allowance for doubtful debts	-	1 201
Other property operating expenses	3 276	3 555
	57 293	56 708

7. SEGMENTAL ANALYSIS

Segmental information

Transcend has three reportable segments based on the entity's strategic business segments, namely, Gauteng, the Western Cape and Mpumalanga. 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 still expected to be concluded during September 2020. This property, and operating segment, has therefore been presented as a discontinued operation at 30 June 2020

Summarised segmental analysis
For the period ended 30 June 2020
R'000

	Gauteng	Western Cape	Reconciliation	Total continuing operations	Mpumalanga (Discontinued operation)	Total
Revenue	137 940	30 783	-	168 723	10 581	179 304
Property operating expenses	(47 430)	(9 863)	-	(57 293)	(3 893)	(61 186)
(Loss)/gain on fair value adjustment of investment property	173	1 300	-	1 473	(17 571)	(16 098)
(Loss)/profit and total comprehensive income for the period	90 494	19 200	(146 821)	(37 127)	(14 082)	(51 209)
Investment property	1 973 213	480 254	-	2 453 467	-	2 453 467
Non-current assets held-for-sale	130 900	20 484	-	151 384	110 000	261 384
Other assets	5 250	1 079	35 371	41 700	316	42 016

Summarised segmental analysis
For the period ended 30 June 2019
R'000

	Gauteng	Western Cape	Reconciliation	Total continuing operations	Mpumalanga (Discontinued operation)	Total
Revenue	160 129	10 829	-	170 958	10 063	181 021
Property operating expenses	(52 385)	(3 582)	(741)	(56 708)	(2 719)	(59 427)
Gain on fair value adjustment of investment property	42 760	-	-	42 760	-	42 760
(Loss)/profit and total comprehensive income for the period	161 405	6 207	(88 738)	78 874	6 429	85 303
Investment property	2 474 681	139 865	-	2 614 546	-	2 614 546
Non-current assets held-for-sale	77 152	-	-	77 152	127 539	204 691
Other assets	4 369	124	106 184	110 677	3 159	113 836

Reconciliation of profit for the year to distributable earnings

	Unaudited 6 months ended 30 June 2020 (R'000)	Unaudited 6 months ended 30 June 2019 (R'000)
(Loss)/profit for the year attributable to Transcend shareholders *	(51 209)	71 846
Unrealised loss on interest rate swaps	71 222	10 470
Revaluation of properties **	16 098	(42 760)
Depreciation	390	377
Acquisition and transaction costs expensed	-	173
Distributable income for the period ***	36 501	40 106
Distributable earnings per share (cents)	27.89	30.64
Distribution per share (cents)	12.10	30.25

* Attributable to continuing and discontinued operations.
** Revaluation of properties includes the revaluation of discontinued operations, Acacia place.
*** The adjustments made to profit to derive the amount avaliable for distribution to shareholders have not been audited.

8. FINANCIAL INSTRUMENT AND INVESTMENT PROPERTIES FAIR VALUE DISCLOSURES

Financial assets and liabilities measured at fair value

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 and cash and cash equivalents, 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. At 30 June 2020 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’s loan, interest-bearing borrowings and trade and other payables as financial liabilities subsequently measured 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
2020

	Fair value	Level 1	Level 2	Level 3
Assets				
Investment properties	2 453 467	-	-	2 453 467
Non-current assets held-for-sale	261 384	-	-	261 384
	2 714 851	-	-	2 714 851
Liabilities				
Derivative liabilities	(85 617)		(85 617)	
	(85 617)	-	(85 617)	-

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

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

Details of valuation techniques

Investment properties - Valuation process

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 properties are valued using a level 3 model.

At 30 June 2020, Transcend's portfolio has not been revalued. During the 6-month reporting period, Transcend's portfolio has performed well and the business continues to generate strong cashflows at a property level. Monthly and quarterly rental collections and occupancies remain relatively uninterrupted to date amidst significant market and valuation uncertainty. Management will reassess the portfolio for revaluation during the next 6-month reporting period ending 31 December 2020. This is in line with Transcend's policy of revaluing properties annually at the end of each financial year.

Investment properties were previously valued at 31 December 2019 by an external, registered valuer. The calculation of the market value of all investment properties in Transcend has been based on the income capitalisation method by capitalising the net contractual income derived from the properties for a period of one year in advance by an applicable capitalisation rate as determined by the independent valuer. This is the fundamental basis on which income producing properties are traded in the South African market. This is also due to there being strong supporting evidence of open market rental rates and capitalisation rates which are evidenced by sales in the market. The valuations were reviewed by the executive directors and presented to the Investment Committee and Board for approval on 4 December 2019.

Note: Acacia Place, Midrand Village units and De Velde units are in the process of being disposed of and where necessary have been revalued to their respective fair values based on the contractual selling prices of the property and/or units. Where appropriate, these properties and/or units have been reclassified from investment properties to non-current assets held-for-sale and are measured at their respective fair values less cost to sell. For all other investment properties, their current use equates to the highest and best use.

Key assumptions used to determine the value of the properties include:

- Expected net operating income;
- Capitalisation rate;

- Growth rate; and
- Vacancy and bad debt factor.

For recurring fair value measurements using significant unobservable inputs, management has performed a sensitivity analysis on these valuation inputs to illustrate that changes may result in a significantly higher or lower fair value measurement. The effect of changes in those measurements on profit or loss and fair value are as follows:

Inputs and assumptions	Fair value ("FV") effect - Increase in input/assumption	Fair value effect ("FV") - Decrease in input/assumptions
Expected net operating income	Increase in FV	Decrease in FV
Capitalisation rate	Decrease in FV	Increase in FV
Growth rate	Increase in FV	Decrease in FV
Vacancy and bad debt factor	Decrease in FV	Increase in FV

Non-current assets held-for-sale - Valuation process
Properties and/or units being disposed of and classified as non-current assets held-for-sale include Acacia Place, Midrand Village and De Velde. These properties and/or units are in the process of being disposed of, and where necessary the properties and/or units have been revalued to their respective fair values based on the contractual selling prices of the property and/or units.

Key assumptions used to determine the value of these properties and/or units include:

- Contractual selling price(s) of the properties and/or units; and
- Cost(s) to sell the properties and/or units, including amongst others:
  - Agent’s sales commission;
  - Bond and transfer costs;
  - Rates clearances; and
  - Levy costs.

The effect of changes in those measurements on profit or loss and fair value are as follows:

Inputs and assumptions	Fair value ("FV") effect - Increase in input/assumption	Fair value effect ("FV") - Decrease in input/assumptions
Contractual selling price(s)	Increase in FV	Decrease in FV
Cost(s) to sell	Decrease in FV	Increase in FV

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. At 30 June 2020, 75.4% of the floating interest rate borrowings has been economically hedged to fixed interest rates.

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

The fair value 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.

At 30 June 2020, the derivative financial liabilities relating to interest rate swaps were fair valued, resulting in an increase of R71.22 million in the liability for the 6-month reporting period; and a corresponding fair value movement in profit or loss.

9. EARNINGS PER SHARE

	Unaudited 6 months ended 30 June 2020 (R'000)	**Unaudited 6 months ended 30 June 2019 (R'000)**
Reconciliation of basic earnings to headline earnings		
(Loss)/profit for the year attributable to Transcend shareholders	(51 209)	71 846
Change in fair value of investment properties	16 098	(42 760)
Headline earnings attributable to Transcend shareholders	**(35 111)**	**29 086**
(Loss)/profit from discontinued operation net of tax	3 489	6 429
Actual number of shares in issue ('000)	130 895	130 895
Weighted average number of shares in issue ('000)	130 895	130 895
Basic and diluted earnings per share (cents)	(26.82)	22.22
Basic and diluted earnings per share (cents) - continuing operations	(29.49)	17.31
Headline and diluted earnings per share (cents)	(26.82)	22.22

10. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

Emira holds 34.9% of Transcend's issued share capital. In addition to its shareholding, Emira has also provided a shareholder's loan to Transcend. The total loan amounted to R143.45 million of which the Company repaid R40 million in June 2020. The balance owing at 30 June 2020 has been refinanced for the short-term, with R10 million paid in July 2020 and R93.45 million due to be repaid in June 2021. Refinancing of this loan attracts interest payable to Emira quarterly at an effective rate of JIBAR plus 3.95%.

IHS RF (Pty) Ltd and IHS (SAWHF Interest) (Pty) Ltd have shareholdings of 11.45% and 5.52% respectively.

Transcend is also 5.2% owned by the SAWHF PVE (SA), a South African *en commandite* partnership (the "Partnership") duly represented by its general partner, the South Africa Workforce Housing Fund (SA GP) (RF) Pty Ltd. The Partnership is comprised of one *en commandite* partner being the South African Workforce Housing SA I, which in turn has three partners being: SAWHF (Cayman) I Ltd, SAWHF (Cayman) II Ltd and SAWHF (SA) II. The relationship between the Partnership and International Housing Solutions (RF) (Pty) Ltd ("IHS (RF) (Pty) Ltd") is governed by a signed investment advisory agreement.

Transcend is externally managed by IHS (Pty) Ltd, a private company registered and incorporated in accordance with the laws of South Africa. In turn, IHS (Pty) Ltd outsources certain functions to IHS Asset Management (Pty) Ltd ("IHS AM") in terms of a service level agreement. Asset management fees of R6.90 million have been charged during the period in accordance with the asset management agreement (30 June 2019: R6.82 million).

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 and a wholly-owned subsidiary of IHS (RF) (Pty) Ltd. A property management agreement was entered into by Transcend and IHS PM on 16 October 2016. IHS PM charged Transcend property management fees of R11.89 million (30 June 2019: R11.90 million) during the period in accordance with the property management agreement.

Transcend does not have any subsidiaries.

11. SUBSEQUENT EVENTS

In line with IAS 10 *Events After the Reporting Date*, the declaration of an interim dividend of 12.09972 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.

12. LIQUIDITY

The total comprehensive loss for the reporting period ended 30 June 2020 amounts to R51.21 million (30 June 2019: Profit of R71.85 million). This loss is primarily due to unrealised loss on revaluation of interest rate swaps of R71.22 million and loss on fair value adjustment of R17.57 million for Acacia Place. As of that date, the Company had a positive net asset value of R1.15 billion and its current assets exceeded its current liabilities by R145.02 million. Current assets include R261.39 million of non-current assets which are expected to be realised for cash in the next 12 months. 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. Included in current liabilities is a shareholder's loan of R103.45 million which is repayable by 13 June 2021. R10 million (of this loan) was paid to Emira in July 2020 and the remaining R93.45 million is due to be paid in June 2021.

The directors have determined that the Company has adequate resources to continue operating for the foreseeable future and that it is appropriate to adopt the going concern basis in preparing the Company's interim financial statements. The directors have satisfied themselves that the Company is in a sound financial position and that it has access to sufficient funding facilities to meet its current obligations and foreseeable cash requirements. 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.

13. PAYMENT OF INTERIM DIVIDEND

The Board has approved, and notice is hereby given of an interim dividend of 12.09972 cents per share for the six months ended 30 June 2020 (30 June 2019: 30.24929 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 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 ("SARS"). 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 9.67978 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 SARS. 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.

At Thursday, 13 August 2020, being the declaration date of the dividend, 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, 1 September 2020
Shares trade ex-dividend	Wednesday, 2 September 2020
Record date	Friday, 4 September 2020
Payment date	Monday, 7 September 2020

Share certificates may not be dematerialised or rematerialised between Wednesday, 2 September 2020 and Friday, 4 September 2020, both days inclusive.

In respect of dematerialised shareholders, the dividend will be transferred to CSDP accounts/broker accounts on Monday, 7 September 2020. Certificated shareholders' dividend payments will be deposited on or about Monday, 7 September 2020.

Shareholders are advised that certain performance measures used in this announcement are not defined by IFRS and may accordingly differ from company to company. The Board however believes that these are relevant performance measures to the Company. The methodology for the calculation of the performance measures is set out on the Company's website. The Board is responsible for the preparation of the performance measures and ensuring compliance with Practice Note 4/2019 (Performance Measures) of the JSE Listings Requirements. The performance measures have been reviewed by the Company's external auditors.

By order of the Board

Solly Mboweni	Myles Kritzinger
Chief Executive Officer	Chief Financial Officer

Johannesburg
13 August 2020

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

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

Sponsor: Questco Corporate Advisory Proprietary Limited

Company secretary: Corpstat Governance Services Proprietary Limited – Johann Zerwick

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

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