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

Provisional summarised audited financial statements for the year ended 31 December 2019

Highlights and performance measures

Distribution per share (cents):	65.14 (0.7% growth)
Total units:	4,730
Property value:	R2.77 billion
Net Asset Value (per share Rand value):	R9.55
Increase in Net Operating Income ("NOI"):	114%
Portfolio occupancy*:	96%*
Portfolio arrears:	1%
Migration to Main Board of the JSE:	12 February 2020

*Unit occupancy of stabilised portfolio at 31 December 2019 – excludes investment properties which are currently being disposed of, namely Acacia Place; Midrand Village; and De Velde. Total portfolio unit occupancy of all properties is 94.4% at 31 December 2019.

Basis of preparation

The summary financial statements have been prepared in accordance with the requirements of the Johannesburg Stock Exchange Limited ("JSE") Listings Requirements for provisional reports, and the requirements of the Companies Act of South Africa, No 71 of 2008, as amended ("Companies Act"), applicable to summary financial statements. The JSE Listings Requirements require provisional reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the financial statements from which the summary audited financial statements were derived are in terms of IFRS, except for the adoption of the IFRSs as set out in Note 1. Basis of measurement, consistent with those applied to the financial statements for the year ended 31 December 2018, as published on 8 March 2019.

The provisional summarised report is extracted from the audited information but is not itself audited. The financial statements were audited by KPMG Inc., who expressed an unmodified opinion thereon. Shareholders are advised that in order to obtain a full understanding of the nature of the auditor's engagement, they should obtain a copy of the auditor's report together with the accompanying audited financial statements, both of which are available for inspection at the company's registered office. The directors of Transcend take full responsibility for the preparation of this report and that the selected financial information has been correctly extracted from the underlying financial statements. The directors are not aware of any material matters or circumstances arising subsequent to 31 December 2019 that require any additional disclosure or adjustments to the audited annual financial statements.

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

Commentary

Main business and operations

Transcend is a Real Estate Investment Trust ("REIT") and holds 4,730 units across a portfolio of 23 directly-owned properties valued at R2.77 billion, located primarily in Gauteng, the Western Cape and Mpumalanga – a discontinued operation – in South Africa. The primary business of Transcend is the acquisition and operation of income-generating residential properties, with a focus on housing opportunities that are affordable, lifestyle enhancing and well located in high growth urban areas.

In line with its strategy, Transcend recently acquired a single property, Silverleaf, consisting of 76 units located in Tshwane, Gauteng. This property transferred and registered in Transcend's name in the Deeds Office on 21 June 2019.

On 1 December 2018, the company acquired 8 investment properties comprising 2,159 units from two related parties by way of effective date agreements (with an "effective date" of 1 December 2018). The properties were fully tenanted and mostly consist of sectional title apartments situated in secure, walk-up complexes located in Gauteng and the Western Cape. The risks and rewards of ownership and control transferred to Transcend on the effective date; however, the transfer of the units only commenced from April 2019. As 31 December 2019, all 2,159 units have transferred in the name of the company and the related party loans have been settled in full through the raising and utilisation of senior secured interest-bearing borrowings with The Standard Bank of South Africa Limited ("Standard Bank") and Nedbank Limited ("Nedbank").

Transcend is also in the process of making various disposals. Acacia Place, a property consisting of 325 units located in Mpumalanga, has been classified as a non-current asset held-for-sale and discontinued operation. A sales agreement was signed for the sale of the property on 14 September 2018, and rental income is payable to Transcend by the buyer until transfer is effected. There has been a delay in the sale of this property beyond a period of 12-months. The cause of this delay is a result of the conditions precedent to the sales agreement not being fulfilled timeously, based on events beyond Transcend's control. However, the buyer and Transcend remain committed to the plan to sell the asset.

On 6 March 2019, a decision was initially taken to dispose of vacant units owned at 2 investment properties: Midrand Village, a freehold property consisting of 225 units located in Clayville, Gauteng; and De Velde, a 310 unit sectional title complex located in Somerset West, Western Cape. Both these properties were acquired as investment property by Transcend from a related party, being International Housing Solutions Res 1 (RF) Proprietary Limited ("IHS Res 1"). During 2019, management continuously assessed these properties and decided that better value can be realised from the sale of units at these properties on a unit-by-unit basis and have classified the Midrand Village property and units at De Velde as non-current assets held-for-sale.

The disposals undertaken by Transcend are also part of management's strategy to sell units and pay down debt to reduce the company's current loan-to-value ratio ("LTV").

Results

Transcend's increase in distribution of 0.7% is in line with management's guidance of slightly better performance than last year, and an expected overall increase in distribution for the full 12-month period ending 31 December 2019. On 13 February 2020, the board of directors of the company (the "Board") declared a final distribution of 34.89 cents per share for the six months ended 31 December 2019. This brings the full year distribution to 65.14 cents per share (2018: 64.68 cents per share). The growth in distribution relates to a consistent portfolio-wide improvement in occupancies for 2019, with improved recoveries and arrears collections. More specifically, improved recovery of water and certain utilities took place at Parklands, located in the Western Cape, which had been experiencing severe droughts.

Despite a continued economic downswing and increased concerns around consumer affordability, as well as pressure on rental escalations and property vacancies (and a drop-off in the overall performance of the market), Transcend was able to meet its guidance for the 2019 financial year. Growth in its distribution from 2018 supports the defensive nature of the residential asset class and Transcend maintaining its strategy of owning well-located, quality properties in high demand areas.

During 2019, management successfully implemented the acquisition of 9 properties. Eight of these properties were acquired from related parties: 7 of these properties were acquired from IHS Res 1 and the other property from Sunnyshore Trade and Invest 105 Proprietary Limited ("Sunnyshore"). By 30 August 2019 all the units acquired have transferred and registered in Transcend's name. On 21 June 2019 Transcend also acquired a further 76 units at a single property, Silverleaf. This increased the total units owned by Transcend to 4,767 units before the impact of any disposals made by the company. These acquisitions have resulted in a 114% increase in property level NOI for 2019.

Management has a strategy of identifying non-core properties and/or units in Transcend's portfolio which can be sold, and the proceeds used to pay down debt and reduce the company's LTV to a targeted long-term range of 30% to 40%. Currently, management is still in the process of disposing Acacia Place (325 units), which is carried at a fair value of R127.5 million at year end.

Additionally, management is in the process of disposing units on a unit-by-unit basis at 2 other properties: Midrand Village (225 units); and De Velde (310 units). As described above, these units were acquired as investment property by Transcend from a related party, IHS Res 1. Management assessed these properties during the year and decided that better value can be realised through the sale of these units. Individual units at both properties have been marketed to third-party buyers throughout 2019. Sales at Midrand Village commenced in March 2019 and have progressed well. At 31 December 2019, 37 units have been sold and transferred to buyers with a further 100 offers to purchase (sales agreements) in place. Sales on vacant units at De Velde were launched in September 2019, and currently there are 12 offers to purchase on De Velde units with no units transferred to date.

Profit and total comprehensive income for the year amounts to R82.05 million (2018: R197.07 million), of which R68.31 million (2018: R188.4 million) is from continuing operations. The decrease in profit from continuing operations is mainly due to a net day 2 gain on fair value adjustments to investment property of R160.63 million recognised in 2018 as part of the properties acquired from IHS Res 1. An unrealised loss on revaluation of interest-rate swaps of R13.52 million (2018: gain of R2.16 million) and an increase in net finance charges of R80.50 million have been recognised for the 12 months ending 31 December 2019. The reason for the unrealised loss on revaluation of interest-rate swaps is due to a decrease in the 3-month JIBAR rate during 2019. The headline earnings attributable to equity holders is R66.78 million (2018: R36.53 million). Total assets at 31 December 2019 amounted to R2.85 billion (2018: R2.87 billion) and decreased with R0.02 billion. The total liabilities at 31 December 2019 amounted to R1.6 billion (2018: 1.6 billion).

Equity raised

No changes were approved or made to the authorised or issued share capital of the company during the year under review.

Debt raised

During 2019 Transcend recognised interest-bearing borrowings to the value of R822.32 million with Standard Bank and Nedbank to fund the acquisition of the 9 properties referred to above. These properties were acquired from 3 separate parties, 2 of which were related parties of the company. The legal transfer and registration of these units into the name of Transcend took place from the first half of 2019. At 31 December 2019 all units relating to acquisitions have transferred to the company.

Silverleaf debt funding:

The acquisition of Silverleaf for R44.5 million was funded partially through new debt secured through Facility C with Standard Bank. This resulted in a R35.6 million increase in that facility and interest-bearing borrowings.

IHS Res 1 and Sunnyshore debt funding:

The remaining 8 of these properties (2,159 units) were acquired from 2 related parties, IHS Res 1 and Sunnyshore, as effective date transactions effective on 1 December 2018. On the effective date, the company initially recognised an increase in investment properties of R1.27 billion for these properties, as well as corresponding loans with related parties of R828.84 million which were payable on transfer of the respective properties. The impact of these effective date transactions is that the cash flow in respect of settling the related party loans only occurred on legal transfer of the properties. All the units transferred in the name of Transcend by 30 August 2019. On transfer of the units, debt of R740 million available from the facilities secured with Standard Bank and Nedbank under a syndication agency agreement (“Agency”) was drawn on. 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.

Total interest-bearing borrowings of R1.39 billion at 31 December 2019 were secured by investment properties owned by Transcend with a carrying value of R2.77 billion.

Facility A, Tranche 1 and Facility B with notional borrowings of R281 million both had maturity dates of 31 January 2020. In December 2019 both these facilities were refinanced as a single facility effective from 31 January 2020 for a 3-year term with a maturity date of 31 January 2023.

A shareholder’s loan of R143.46m with Emira Property Fund Limited ("Emira") was secured during 2018. This loan was also used to finance Transcend's investment in the 8 properties acquired from related parties. 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%. At 31 December 2019 the loan payable was R146.53 million. The total principal borrowings of the loan are repayable in June 2020, however, Transcend has extended the repayment of R93.46 million for an additional 12 months with repayment in June 2021.

Property portfolio

At 31 December 2019 Transcend owns 23 properties consisting of 4,730 units with a Gross lettable area (“GLA”) of 267,879m^2.

Geographically, the properties are located in the following provinces:

Gauteng	77%
Western Cape	17%
Mpumalanga*	6%

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.

Acquisitions

Silverleaf

In line with its strategy, Transcend acquired 1 property during 2019, comprising 76 units, from De Facto Investments 264 Proprietary Limited. Silverleaf is a sectional title development located in Tshwane, Gauteng. The agreement was entered into between the parties 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 was supplemented by a 6-month rental guarantee which expired on 31 December 2019.

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 a non-performing property as a result of large vacancies from the non-renewal of bulk leases and the depressed market in Witbank. Management took a decision to sell this property to Instratin Properties Proprietary Limited (“Instratin”) and has classified the property as held-for-sale, carried at a fair value of R127.5 million at year end. There has been a delay in the sale of this property beyond a period of 12-months, as a result of the conditions precedent to the sales agreement not being fulfilled timeously. The property now has an anticipated transfer date of 30 June 2020 and the buyer and Transcend remain committed to the plan to sell the asset.

At 31 December 2019, management has improved the performance of the property and increased its occupancy to 94.8%, however, rental income is payable by Instratin to Transcend until transfer is affected.

Midrand Village units
Management is in the process of disposing units at the Midrand Village investment property on a unit-by-unit basis. The property consists of 225 freehold units located in Clayville, Gauteng. The property was acquired as investment property by Transcend from a related party, IHS Res 1 as part of an effective date transaction dated 1 December 2018. These units at this property transferred and registered into the name of Transcend during 2019, and throughout the year management assessed this property and decided that the units could be better realised through sale rather than held by Transcend for rental purposes. The property is a full-title, freehold development and individual units have been marketed to third-party, home-owner buyers. At 31 December 2019, 37 of the Midrand Village units have been sold and transferred to buyers with a further 100 offers to purchase (sales agreements) in place on units at that date.

Consequently, all the remaining units at Midrand Village have been reclassified from investment properties to non-current assets held-for-sale as a significant portion of the total units have been sold (61% of units have either sold and transferred or have 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 transferred to buyers within 12 months from the year ended 31 December 2019.

De Velde units
The De Velde investment property consists of 310 sectional title units located in Somerset West, Western Cape. Similar to Midrand Village, this property was acquired as investment property by Transcend from a related party, IHS Res 1 as part of an effective date transaction dated 1 December 2018. These units transferred and registered into the name of Transcend on 31 July 2019, and 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 31 December 2019 there were 12 offers to purchase in place on units, with no units transferred to buyers.

For De Velde, only those units with offers in place have been classified as an asset held-for-sale. 12 units were sold by year end, and although management will continue to sell units it is its (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 31 December 2019.

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

Vacancies and arrears
Based on existing leases at 31 December 2019, the total portfolio's unit vacancy rate was 5.6%. Excluding disposal properties (Acacia Place, Midrand Village units and De Velde units), the vacancy rate for the remaining 20 properties is 4%. It is expected that the vacancies of the stabilised portfolio will remain within the 3% to 5% range.

Facilities
At 31 December 2019, the following interest-bearing borrowings with Standard Bank and Nedbank were in place:

Standard Bank		
Facility drawn on	**Notional Amount (R'000)**	**Margin over JIBAR**
Facility A, Tranche 1: Maturity of 31 January 2020 (3-year)*	274,000	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%
Facility B: Expiry 31 January 2020 (3-year) *	7,000	Prime less 1%

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) *	131,130	Prime less 1%

*During December 2019 Transcend refinanced Facility A, Tranche 1 and Facility B with Standard Bank. Both facilities have been refinanced under a single facility of R284 million – interest only loan with a variable rate at 3-month JIBAR plus 1.85% with a maturity date of 31 January 2023.

Facility A (Tranches 1 and 2), Facility B and Facility C are held directly with Standard Bank only. Facility D (Tranches 1 and 2) and Facility E are held under Agency. The total facilities are secured by the properties owned by Transcend with a carrying value of R2.77 billion.

The Standard Bank facilities (Facilities A, B and C) are secured by properties owned by Transcend with a fair value of R1.38 billion. The Agency facilities (Facilities D and E) are secured by properties owned by Transcend with a fair value of R1.39 billion. This security includes Acacia Place, Midrand Village units and De Velde 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, R163.75 million and R14.32 million (collectively R305.57 million). To date, 37 of the Midrand Village units have been sold and transferred to third-party buyers. Portion of the net sales proceeds received from the disposal of those units have been applied to Facility E, and reduced the notional amount drawn on of R150 million to a year end capital balance owing of R131.13 million. 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 R1.9 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 R4.9 million on facility D and facility E were also capitalised and are also amortised over an average period of 4 years.

At 31 December 2019, 74% of the company's interest rate exposure on the various facilities was hedged. Under Facility A, the 3-year tranche (Tranche 1) was 50% hedged by an interest rate swap at a fixed rate of 7.26% which expired in January 2020; and the 5-year tranche (Tranche 2) 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 C, Facility D and Facility E during 2019, brings the total Transcend external bank borrowings to R1.39 billion at 31 December 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.

At 31 December 2019, 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 31 January 2020	137,500	7.26%
Interest rate swap: Expiry 31 January 2022	137,500	7.56%
Interest rate swap: Expiry 15 May 2020	92,500	7.44%
Interest rate swap: Expiry 10 April 2022	195,000	7.27%
Interest rate swap: Expiry 17 May 2023*	92,500	7.35%
Interest rate swap: Expiry 31 January 2022***	137,000	6.87%
Interest rate swap: Expiry 15 May 2023***	92,500	6.92%

NEDBANK SWAPS		
Interest rate applicable	**Notional Amount (R'000)**	**Rate**
Interest rate swap: Expiry 15 May 2020	92,500	7.26%
Interest rate swap: Expiry 16 May 2022	195,000	7.23%
Interest rate swap: Expiry 17 May 2023**	92,500	7.28%
Interest rate swap: Expiry 15 May 2023***	92,500	6.96%

** On 10 December 2019 Transcend restructured a 2-year hedge with a maturity date of 15 May 2021 to 17 May 2023 at a fixed rate of 7.35%. This replaces the existing 2-year swap.*
*** On 10 December 2019 Transcend restructured a 2-year hedge with a maturity date of 17 May 2021 to 15 May 2023 at a fixed rate of 7.28%. This replaces the existing 1-year swap.*
**** In December 2019 Transcend has entered into various forward starting hedges. These hedges are effective from the respective start dates in 2020.*

Gearing

Transcend's LTV is 47% (2018: 47%), which is in line the prior year gearing levels. Investment properties valuations have remained flat from 2018. Although this (ratio) falls outside the targeted long-term range of 30% to 40% LTV, management plans to reduce this LTV to the targeted range within the medium-term by raising equity for new acquisitions and using proceeds from the sale of Acacia Place, Midrand Village units and De Velde units to pay down on existing debt.

Summary of financial performance

	Dec-19	Dec-18
Dividend per share (cents)	65.14	64.68
Shares in issue (number '000)	130 895	130 895
Net asset value per share (Rand)	9.55	9.55
Loan-to-value (%) (*)	47.0%	47.0%
Net property expense ratio % (**)	27.8%	29.0%
Gross property expense ratio (%) (**)	32.7%	34.9%
Net total expense ratio (**)	34.4%	43.4%
Gross total expense ratio (**)	38.9%	48.1%

(*) 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.

Statement of financial position

Figures in R'000	2019	2018 restated*	2017 restated*
Assets			
Non-current assets			
Investment properties	2,460,174	2,588,000	1,218,640
Property and equipment	2,541	3,069	754
	2,462,715	**2,591,069**	**1,219,394**
Current assets			
Trade and other receivables	6,622	6,525	4,441
Cash and cash equivalents	73,592	141,621	46,048
	80,214	**148,146**	**50,489**
Non-current assets held-for-sale and discontinued operation	305,571	127,500	-
Total assets	**2,848,500**	**2,866,715**	**1,269,883**
Equity and liabilities			
Equity			
Stated capital	1,020,934	1,020,934	632,276
Retained earnings	228,991	231,767	56,553
	1,249,925	**1,252,701**	**688,829**
Non-current liabilities			
Interest-bearing borrowings*	1,382,356	581,091	547,194
Loans from shareholders	92,774	140,986	-
Derivative liabilities	13,696	679	2,870
	1,488,826	**722,756**	**550,064**
Current liabilities			
Loans from related parties	-	828,835	-
Interest-bearing borrowings*	7,650	8,209	8,130
Trade and other payables	44,306	51,827	22,636
Loans from shareholders	53,754	795	-
Derivative liabilities	699	195	158
Taxation	-	-	66
	106,409	**889,861**	**30,990**
Liabilities directly associated with non-current asset held-for-sale	3,340	1,397	-
Total equity and liabilities	**2,848,500**	**2,866,715**	**1,269,883**

Statement of profit or loss and other comprehensive income

Figures in R'000	Notes	2019	2018
Continuing operations			
Rental income from investment properties		312,808	148,346
Recoveries of operating costs from tenants		23,085	13,452
Revenue	19	**335,893**	**161,798**
Property operating expenses	20	(107,514)	(53,907)
Impairment losses		(6,271)	(2,506)
Other income	21	3,832	-
Net operating income		**225,940**	**105,385**
Other operating expenses	22	(20,607)	(21,375)
Operating profit		**205,333**	**84,010**
Gain on fair value adjustment of properties	23	15,434	160,627
Unrealised (loss)/gain on revaluation of interest rate swaps		(13,522)	2,155
Net finance charges		(138,940)	(58,390)
Finance income	24	7,800	3,098
Finance costs	25	(146,740)	(61,488)
Profit before taxation		**68,305**	**188,402**
Taxation	26	-	-
Profit from continuing operations		**68,305**	**188,402**
Discontinued operation			
Profit from discontinued operation net of tax	12	13,742	8,666
Total comprehensive income for the period		**82,047**	**197,068**

Earnings per share		
Basic and diluted earnings per share (cents)	62.68	277.9
Earnings per share - continuing operations		
Basic and diluted earnings per share (cents)	52.18	265.7

Statement of changes in equity

Figures in R'000	Stated capital	Retained earnings	Total
Balance at 1 January 2018	632,276	56,553	688,829
Total comprehensive income for the year			
Profit and total comprehensive income for the year	-	197,068	197,068
Total comprehensive income for the year	-	197,068	197,068
Transactions with owners			-
Dividends	-	(42,655)	(42,655)
Issue of share capital	409,459	-	409,459
Transfer of antecedent dividend	(20,801)	20,801	-
Balance at 31 December 2018	**1,020,934**	**231,767**	**1,252,701**
Total comprehensive income for the year			
Profit and total comprehensive income for the year	-	82,047	82,047
Total comprehensive income for the year	-	82,047	82,047
Transactions with owners			
Dividends	-	(84,823)	(84,823)
Balance at 31 December 2019	**1,020,934**	**228,991**	**1,249,925**

	2019	2018
Dividend per share (cents)	65.14	64.68
Interim	30.25	30.10
Final*	34.89	34.58

** The final dividend is declared post the financial year end and is therefore a non-adjusting subsequent event.*

Note: An antecedent dividend was reclassified from stated capital to retained earnings for share capital issued during the 2018 financial year.

Statement of cash flows

Figures in R'000	2019	2018
Cash flows from operating activities		
Profit and total comprehensive income for the year	**82,047**	**197,068**
Adjustments for:		
Finance costs	146,686	61,488
Depreciation of property and equipment	767	444
Finance income	(7,800)	(3,130)
Change in fair value of investment properties	(15,272)	(160,543)
Acquisition and transaction costs	-	1,999
Unrealised (gain)/loss on revaluation of interest rate swaps	13,522	(2,155)
Operating profit before working capital changes	219,950	95,171
Working capital changes		
Increase in trade and other receivables	(141)	(2,084)
Adjustments for impairment losses	617	-
(Decrease)/increase in trade and other payables	(5,578)	18,271
Cash generated by operating activities	**214,848**	**111,358**
Finance income received	7,287	3,130
Finance costs paid	(139,953)	(53,672)
Net cash from operating activities	**82,182**	**60,816**
Cash flows from investing activities		
Proceeds from sales of non-current assets held-for-sale	31,244	-
Investment properties acquired	(851,092)	(505,206)
Property and equipment acquired	(239)	(2,759)
Net cash utilised in investing activities	**(820,087)**	**(507,965)**
Cash flows from financing activities		
Proceeds from share issue	-	410,915
Interest-bearing borrowings received	798,657	33,476
Loans from related parties received	800,000	-
Loans from related parties settled	(843,958)	-
Shareholder loan received	-	140,986
Dividends paid	(84,823)	(42,655)
Net cash generated from financing activities	**669,876**	**542,722**
Increase in cash and cash equivalents	**(68,029)**	**95,573**
Cash and cash equivalents at beginning of the year	141,621	46,048
Cash and cash equivalents at end of the year	**73,592**	**141,621**

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 and control 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.

At 31 December 2019, all of the 2,159 units have 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 party loans of R800 million raised from the effective date.

Notes

1. Basis of measurement

The financial statements have been prepared on the historical cost basis, except for investment properties, non-current assets held-for-sale and derivatives which are measured at fair value, as explained in the accounting policies that follow. The presentation currency in the financial statements is South African Rand ("Rand") and all amounts have been rounded to the nearest thousand (R'000). For the year ending 31 December 2019, the accounting policies applied in the audited annual financial statements are the same as those applied in the company's financial statements at and for the year ended 31 December 2018, except as noted below.

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 2019. At the date of authorisation of the financial statements for the year ended 31 December 2019, the following standard was adopted:

IFRS 16 Leases

IFRS 16 provides guidance for the recognition, measurement, presentation and disclosure of leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 Leases. The company has assessed the impact if this standard on its financial statements for the year ended 31 December 2019 and as the company mainly operates as a lessor, no significant effects have been identified.

A number of other new standards are also effective 1 January 2019 but do not have a material effect on the company's financial statements.

Accounting standards and interpretations not yet effective

There are new or revised accounting standards and interpretations in issue that are not yet effective. These include the following standards and interpretations that are material to the business of the company and may have an impact on future financial statements, or those for which the impact has not yet been assessed.

Definition of Material - Amendments to IAS 1 and IAS 8

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 require any prior year adjustments.

2. Reconciliation of profit for the year to headline earnings

	2019	2018
Reconciliation of basic earnings to headline earnings		
Profit for the year attributable to Transcend shareholders	82,047	197,068
Change in fair value of properties	(15,272)	(160,543)
Headline earnings attributable to Transcend shareholders	**66,775**	**36,525**
Actual number of shares in issue ('000)	130,895	130,895
Weighted average number of shares in issue ('000)	130,895	70,911
Basic and diluted earnings per share (cents)	62.68	277.91
Headline and diluted headline earnings per share (cents)	51.01	51.51

3. Sectoral split

Based on:	GLA	Book value
Residential	100%	100%

4. Lease expiry profile

Based on:	GLA (%)	Rental revenue
Vacancy	7.4%	7.5%
Monthly	92.6%	92.5%
30 June 2020	0.0%	0.0%
31 December 2020	0.0%	0.0%
	100.0%	100.0%

5. Related parties and related party transactions

Transcend is 35.2% 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.

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. 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%. At 31 December 2019 the loan payable was R146.53 million. The total principal borrowings of the loan are repayable in June 2020, however, Transcend has refinanced R93.46 million for an additional 12-months with repayment 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 has a shareholding of 11.42%.

Transcend is externally managed by IHS Asset Management (Pty) Ltd ("IHS AM"), a private company registered and incorporated in accordance with the laws of South Africa and a 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 R13.75 million (2018: R5.75 million) during the year in accordance with the asset management agreement.

The property management function of the company is outsourced on market related terms to IHS Property Management (Pty) Ltd ("IHS PM"), a private company registered and incorporated in accordance with the laws of South Africa 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 R24.37 million (2018: R12.4 million) during the year in accordance with the property management agreement.

At 31 December 2018 the loans payable to related parties were in respect of outstanding amounts owing to IHS Res 1 and Sunnyshore for the acquisition of 8 properties (2,159 units). The purchase considerations payable were funded partially through equity and debt on transfer of the properties. These properties transferred to and registered in the name of Transcend during the period April to August 2019, and the corresponding related loans payable were settled in full through surplus cash and senior secured interest-bearing borrowings with Standard Bank and under Agency.

IHS Res 1

At 31 December 2018 the total loan payable to IHS Res 1 amounted to R768.62 million and was classified as current as it was settled within 12 months from year end 31 December 2018. This loan was unsecured until final settlement of the amount outstanding. Throughout 2019 this loan was replaced by interest-bearing borrowings secured under new 3-year, 5-year and overdraft facilities (Facilities D and E) upon transfer of the respective units to Transcend. At 31 December 2019 there was no balance payable to IHS Res 1 as senior debt secured of R740 million (and surplus cash) was drawn on upon transfer of the respective properties and used to settle the loan in full. In terms of the sales agreement with IHS Res 1 an escalation of 6% per annum was levied on the purchase consideration payable to IHS Res 1 from the effective date of 1 December 2018. This escalation accrued until 30 August 2019 – the date when all the properties had transferred to Transcend - and amounted to R37.31m (which included a purchase consideration escalation provision of R22.19m was recognised in 2018). A final settlement amount of R35.6 million was paid to IHS Res 1 during December 2019.

Sunnyshore

At 31 December 2018 the total loan payable to Sunnyshore amounted to R60.22 million and was classified as current as it was settled within 12 months from the year ended 31 December 2019. This loan was unsecured until final settlement of the amount outstanding. In March 2019 this loan was replaced by interest-bearing borrowings of R46.72 million secured under Facility C upon transfer of the respective units to Transcend. At 31 December 2019 there was no balance payable to Sunnyshore as the senior debt secured (and surplus cash) was drawn on upon transfer of the respective properties and used to settle the loan in full.

On transfer of the 2,159 units to Transcend, the existing bonds over the properties were cancelled and total new bonds were registered to the value of R786.22 million. New 3-year, 5- year and overdraft facilities from Standard Bank and Nedbank in respect of these units have been recognised as interest-bearing borrowings on Transcend's statement of financial position at 31 December 2019. At end 31 December 2019 these facilities amount to R768.16 million and are secured by the target investment properties.

Transcend does not have any subsidiaries.

6. Summarised segmental analysis

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 expected to be concluded during the first half of 2020. This property, and operating segment, has therefore been presented as a discontinued operation at 31 December 2019.

Figures in R'000	Gauteng	Western Cape	Reconciliation **	Total continuing operations	Mpumalanga (Discontinued operation *)	Total
2019						
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME						
Rental income from investment properties	255,503	57,296	9	312,808	17,968	330,776
Recoveries of operating costs from tenants	21,253	1,832	-	23,085	2,470	25,555
Revenue	276,756	59,128	9	335,893	20,438	356,331
Property operating expenses	(87,617)	(19,254)	(643)	(107,514)	(6,660)	(114,174)
Impairment losses	(3,550)	(2,721)	-	(6,271)	(278)	(6,549)
Other property income	2,973	770	89	3,832	407	4,239
Net operating income	188,562	37,923	(545)	225,940	13,907	239,848
Other operating expenses	(597)	(541)	(19,469)	(20,607)	(57)	(20,664)
Operating profit	187,965	37,382	(20,014)	205,333	13,850	219,184
Gain/(loss) on fair value adjustment of properties	23,268	(7,834)	-	15,434	(162)	15,272
Unrealised gain/(loss) on revaluation of interest rate swaps	-	-	(13,522)	(13,522)	-	(13,522)
Net finance charges	625	108	(139,673)	(138,940)	54	(138,886)
Finance income	627	108	7,065	7,800	55	7,855
Finance costs	(2)		(146,738)	(146,740)	(1)	(146,741)
Profit before taxation	211,858	29,656	(173,209)	68,304	13,742	82,047
Taxation						
Profit and total comprehensive income for the period	211,858	29,656	(173,209)	68,305	13,742	82,047

Figures in R'000	Gauteng	Western Cape	Reconciliation **	Total continuing operations	Mpumalanga (Discontinued operation *)	Total
STATEMENT OF FINANCIAL POSITION						
Investment properties	2,118,318	341,857	-	2,460,174	-	2,460,174
Non-current assets held-for-sale	163,750	14,320	-	178,070	127,500	305,570
Other assets	4,877	760	74,505	80,142	2,609	82,751
Interest-bearing borrowings	-	-	1,390,006	1,390,006	-	1,390,006

*The Mpumalanga operating segments represents a single property, Acacia Place. This property is in the process of being sold and has therefore been presented as a non-current asset held-for-sale and the operating segment as a discontinued operation.
**Reconciliation relates to income and expenses incurred at a centralised entity level that cannot be accurately allocated to investment properties included in the operating segments.

Operating segments are reported by region/geographical area. Included in each geographical area is/are the following Investment properties:

> Mpumalanga: Acacia Place

> Western Cape: Parklands, Alpine Mews, De Velde and Vanguard Village

> Gauteng: Ekhaya Fleurhof, Ekhaya Jabulani, Terenure Estate, 67th on 7th, Jackalberry Close, Village Seven Stone Arch Village, Molware, Kensington Place, Tradewinds, Theresa Park Estates, Southgate Ridge, Protea Glen, Midrand Village, Urban Ridge West, Urban Ridge South, Urban Ridge East, Birchwood Village and Silverleaf***.

***Acquisitions made during 2019.

Figures in R'000	Gauteng	Western Cape	Reconciliation	Total continuing operations	Mpumalanga (Discontinued operation)	Total
2018						
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME						
Rental income from investment properties	128,194	20,152	-	148,346	12,212	160,558
Recoveries of operating costs from tenants	11,894	1,558	-	13,452	2,390	15,842
Revenue	140,088	21,710	-	161,798	14,602	176,400
Property operating expenses	(45,413)	(8,494)	-	(53,907)	(4,893)	(58,800)
Impairment losses	(1,494)	(1,012)	-	(2,506)	(911)	(4,429)
Net operating income	93,181	12,204	-	105,385	8,798	113,171
Other operating expenses	(685)	(1,135)	(19,555)	(21,375)	(80)	(42,145)
Operating profit	92,496	11,069	(19,555)	84,010	8,718	71,026
Gain/(loss) on fair value adjustment of properties	122,953	37,674	-	160,627	(84)	198,217
Unrealised gain/(loss) on revaluation of interest rate swaps	-	-	2,155	2,155	-	4,310
Net finance charges	222	40	(58,652)	(58,390)	32	(58,358)
Finance income	222	40	2,836	3,098	32	3,130
Finance costs	-	-	(61,488)	(61,488)	-	(61,488)
Profit before taxation	215,671	48,783	(76,052)	188,402	8,666	197,068
Taxation	-	-	-	-	-	-
Profit and total comprehensive income for the period	215,671	48,783	(76,052)	188,402	8,666	197,068

Figures in R'000	Gauteng	Western Cape	Reconciliation	Total continuing operations	Mpumalanga (Discontinued operation)	Total
STATEMENT OF FINANCIAL POSITION						
Investment properties	2,117,100	470,900	-	2,588,000	-	2,588,000
Non-current assets held-for-sale	-	-	-	-	127,500	127,500
Other assets	9,411	2,804	134,897	147,112	4,103	151,215
Interest-bearing borrowings	-	-	589,300	589,300	-	589,300

Included in the 2018 geographical area are the following investment properties:

> Mpumalanga: Acacia Place

> Western Cape: Parklands, Alpine Mews, De Velde and Vanguard Village

> Gauteng: Ekhaya Fleurhof, Ekhaya Jabulani, Terenure Estate, 67th on 7th, Jackalberry Close, Village Seven Stone Arch Village, Molware, Kensington Place, Tradewinds, Theresa Park Estates, Southgate Ridge, Protea Glen, Midrand Village, Urban Ridge West, Urban Ridge South, Urban Ridge East and Birchwood Village

7. Reconciliation of profit for the year to distributable earnings

	2019	2018
Profit for the year attributable to Transcend shareholders *	82,047	197,068
Adjustments		
Revaluation of properties *****	(15,272)	(160,543)
Unrealised (gain)/loss on interest rate swaps	13,522	(2,155)
Acquisition and transaction costs expensed	3,654	9,493
Surplus working capital available for distribution **	34	3,956
Depreciation****	767	-
Amortised loan raising fee	(925)	-
Compensation for loss of vacancy on units held-for-sale***	1,438	-
Antecedent dividend available for distribution	-	17,403
Distribution payable to shareholders	85,265	65,222
Total dividend		
Interim	39,595	19,957
Final	45,670	45,265
Actual number of shares in issue ('000)	130,895	130,895
Dividend per share (cents)	65.14	64.68
Interim	30.25	30.10
Final	34.89	34.58

*Attributable to continuing and discontinued operations.

**Surplus working capital includes taxable temporary differences that are not deductible for tax purposes.

***Compensation for loss of vacancy on units held-for-sale: This amount is an allocation of net sales proceeds received for Midrand Village units sold. The amount is in respect of rental income forfeited on units sold due to units being held vacant for sale. Units sold to third-party homeowners require the existing lease in place in respect of that unit to be cancelled by giving notice to the current tenant. Loss of income is derived from the period from when a unit sale is unconditional until that unit transfers and registers at the Deed's Office.

****Total depreciation of R0.77 million is recognised in the statement of profit and loss and other comprehensive income. The depreciation relates to fixtures and fittings and is added back on the basis that it forms part of the capital of the property.

***** Revaluation of properties includes the revaluation of discontinued operation, Acacia Place.

8. Financial instrument and investment property fair value disclosures

Financial asset classification

The company classifies financial assets into the following categories:

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

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The company intends to hold the financial assets being trade and other receivables 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 31 December 2019 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, loans from related parties and trade and other payables as financial liabilities subsequently measure at amortised cost. Derivative liabilities are classified as financial liabilities measured at fair value through profit or loss.

Fair value hierarchy for financial instruments and investment property

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

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

Figures in R'000	Fair value	Level 1	Level 2	Level 3
31 DECEMBER 2019				
Assets				
Investment properties	2,460,174	-	-	2,460,174
Non-current assets held-for-sale	305,571	-	-	305,571
	2,765,745	-	-	2,765,745
Liabilities				
Derivative liabilities	(14,395)	-	(14,395)	-
	(14,395)	-	(14,395)	-
31 DECEMBER 2018				
Assets				
Investment properties	2,588,000	-	-	2,588,000
Non-current assets held-for-sale	127,500	-	-	127,500
	2,715,500	-	-	2,715,500
Liabilities				
Derivative liabilities	(874)	-	(874)	-
	(874)	-	(874)	-

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

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

Details of valuation techniques

Investment properties - Valuation process

Investment properties are valued using a level 3 model. Investment properties were valued at 31 December 2019 by capitalising the net contractual income derived from the properties for a period of one year in advance by an applicable capitalisation rate as determined by the independent valuer. The calculation of the market value of all properties in Transcend has been based on the income capitalisation method. This is the fundamental basis on which income producing properties are traded in the South African market. This is also due to there being strong supporting evidence of open market rental rates and capitalisation rates which are evidenced by sales in the market.

All of the company's investment properties were valued at 31 December 2019 by an external registered valuer. 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:

Expected net operating income:
The average rental income ranges from R4,218 to R10,327 (2018: R4,060 to R10,273) per unit. Generally, the rentals are market related compared to similar buildings in comparable areas.

Capitalisation rate:
The capitalisation rate ranges from 8% to 10% (2018: 8% to 10%). The capitalisation rate applied was derived using an appropriate risk-free rate and adding on a property related risk and illiquidity risk related to property, as well as further amounts related to each property's construction, size, age, rental, use and other property specific risks. Testing this for reasonableness was achieved by comparing the resultant value per opportunity and effective yield rate against current project sales information, and comparative sales of similar properties in similar locations.

Growth rate:
The range for rental escalation is 2.5% to 3.5% (2018: 3% to 5%). The rental growth rates are based on current experience with actual growth achieved but should trend towards inflation over the long term and expectations of future rental increases based on budgets. The lower growth rates are reflective of tough current economic conditions.

Vacancy and bad debt factor:
During the current year 3.5% to 7.5% (2018: 3% to 15%) of the gross income was deducted as a provision for rental that may not be collected as a consequence of vacancy, tenant failure or tenant refitting during the course of the coming year. The current vacancies are market related.

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:

Changes in capitalisation rate:
At 31 December 2019, Transcend's portfolio has a weighted average capitalisation rate of 8.81%. This includes all investment properties and properties held-for-sale. An increase and decrease of 25 basis points ("bps") has been applied to the weighted average capitalisation rate to determine a range of property values should current capitalisation rates change. An increase in capitalisation rates would result in a decrease in property value (and portfolio value). Based on a 25bps increase in rates, Transcend's portfolio value would decrease by R67.84 million (2.45%). A decrease or compression in capitalisation rates would result in an increase in property value (and portfolio value). Based on a 25bps decrease in rates, Transcend's portfolio value would increase by R71.79 million (2.6%). The effect of this change in valuation would affect the gain or loss on fair value adjustment of properties recognised in the statement of profit or loss and other comprehensive income. Investment properties or noncurrent assets held-for-sale would also be effected on the statement of financial position.

Effect of changes in other valuation inputs and assumptions on the fair value of investment properties:

Inputs and assumptions	Fair value ("FV") effect - Increase in input/assumption	Fair value effect ("FV") - Decrease in inpu/assumptiont
Expected net operating income	Increase in FV	Decrease 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.

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 31 December 2019, 74% 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 31 December 2019, the derivative financial liabilities relating to interest rate swaps were fair valued, resulting in an increase of R13.52 million (2018: R2.16 million) in the liability and a corresponding fair value movement in profit or loss.

9. Correction of error of non-current vs current classification of interest-bearing borrowings

During 2019, management 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

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

10. Outlook

The general sentiment amongst the investor market is that the listed property sector will show little to no dividend growth in 2020 for the first time in 17 years. Real estate companies have battled to perform over the past 2 years, while the economy slows amid weak consumer spending and continued power outages caused by load-shedding. There is still the threat of further job losses, including at various State-Owned Enterprises such as South African Airways and Eskom. The threat of junk status remains a concern for the South African economy.

All these factors will continue to put pressure on the consumer and Transcend's tenant base, and the ability to increase rental income will be somewhat constrained. However, Transcend's management are confident that the company will produce improved positive growth for 2020. The disposal of units at Midrand Village is progressing well, and the proceeds of the sales will be utilised to reduce current debt levels and acquire new investment properties. De Velde sales launched in September 2019 and 12 sales have been made to date.

With the migration to the Main JSE Board, Transcend hopes to attract new investor pools through acquisitions of accretive properties into the portfolio. This would result in improving the spread and liquidity of the shares.

The 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.

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

Transfer to the Main Board of the JSE
The Board is pleased to announce that the JSE has approved the transfer of the company's listing from the Alternative Exchange to the "SA Listed Property" sector of the Main Board of the JSE with effect from Wednesday, 12 February 2020. The move follows a request by Transcend to move to the Main Board as a result of the company fulfilling all of the criteria for a Main Board listing as set out in the JSE Listings Requirements.

As a result of the transfer, Robert Emslie (Chairman of the Board) has resigned from the Audit and Risk Committee of Transcend as recommended by King IV's principle 7: The Chairman of the Board should not be a member of the Audit Committee.

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

12. Liquidity and going concern
The company earned profit and total comprehensive income for the year ended 31 December 2019 of R82.05 million (2018: R197.07 million). As of that date, the company had a positive net asset value of R1.25 billion (2018: R1.25 billion). The company's current assets exceed its current liabilities by R279.38 million (2018: current liabilities exceeded current assets by R786.43 million). Current assets include R305.77 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.

The directors consider that the company has adequate resources to continue operating for the foreseeable future and that it is appropriate to adopt the going concern basis in preparing the company's 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.

13. Payment of final dividend
The Board has approved, and notice is hereby given of a final dividend of 34.89 cents per share for the six months ended 31 December 2019. This brings the full year distribution to 65.14 cents per share (2018: 64.68 cents per share) for the year ended 31 December 2019.

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 (“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 27.91290 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 Friday, 14 February 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, 3 March 2020
Shares trade ex-dividend	Wednesday, 4 March 2020
Record date	Friday, 6 March 2020
Payment date	Monday, 9 March 2020

Share certificates may not be dematerialised or rematerialised between Wednesday, 4 March 2019 and Friday, 6 March 2020, both days inclusive.

In respect of dematerialised shareholders, the dividend will be transferred to CSDP accounts/broker accounts on Monday, 9 March 2020. Certificated shareholders' dividend payments will be deposited on or about Monday, 9 March 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
Chief Executive Officer

Myles Kritzinger
Chief Financial Officer

Johannesburg
14 February 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

Designated Advisor: 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