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 2020**

**Highlights and key performance measures:**

| | |
|---|---|
| **Financial metrics:** | |
| Distribution per share (cents) | 55.75 (14.42% reduction) |
| Distribution per share pay-out ratio | 100% for full year distribution |
| Net Asset Value (per share Rand value)* | R8.87* |
| **Operational metrics:** | |
| Total units | 4,267 |
| Property value | R2.51 billion |
| Portfolio occupancy at 31 December 2020** | 91.70%** |
| Average portfolio occupancy for full reporting period** | 93.36%** |
| Portfolio arrears | 2.83% |
| Portfolio collections for the year | 94.39% |
| **Other performance highlights:** | |
| Migration to Main Board of the JSE | 12 February 2020 |

*Based on the South African Real Estate Investment Trust ("SA REIT") Association best practice recommendations issued November 2019.

**Occupancy of stabilised portfolio based on gross rental – excludes properties which are currently being disposed of or held-for-sale, namely Midrand Village; De Velde and Birchwood Village. For total portfolio occupancy of all properties refer to the section on Occupancies and arrears.

**Basis of preparation**

The provisional summarised financial statements have been prepared in accordance with the requirements of the 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 summarised audited financial statements were derived are in terms of IFRS, except for the adoption of the IFRSs as set out in Note 1. The accounting policies and basis of measurement are consistent with those applied to the financial statements for the year ended 31 December 2019, as published on 14 February 2020.

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 2020 that require any additional disclosure or adjustments to the audited annual financial statements.

Myles Kritzinger CA(SA), Transcend's Chief Executive Officer ("CEO") and acting 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**

**Results**

Distribution

On 12 February 2021, the board of directors of the company (the "Board") declared a final dividend per share ("DPS") of 43.65 cents per share for the six months ended 31 December 2020. This brings the full year distribution to 55.75 cents per share (2019: 65.14 cents per share), 14.42% down year-on-year. The decline in distribution relates primarily to inaccurate billings received from local municipalities coupled with the negative effects of the COVID-19 pandemic ("the Pandemic") on the South African economy.

Transcend uses DPS as its relevant measurement of financial results. The company declares and pays both an interim and final dividend in respect of each financial year. In considering the payment of dividends, the Board, with the Audit and Risk Committee's assurance, takes the following into account:

- the financial status of the company, subject to solvency and liquidity testing as required by the Companies Act; and
- the capital commitments of the company and its funding requirements for the next 12 months.

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. On 7 August 2020, the Board approved an interim dividend of 12.10 cents per share for the period ended 30 June 2020, representing 40% of the prior corresponding period DPS. The Board 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 any unforeseeable circumstances.

For the year ended 31 December 2020, the Board approved an increased final DPS of 43.65 cents per share (25.11% up from prior corresponding period). This distribution is backed by a 94.39% collection rate for the period and positive cash generated from the net operating activities of the portfolio. This represents a pay-out ratio of 100% of distributable income for the period ended 31 December 2020. Despite the uncertainties created by the Pandemic, Transcend has maintained a sound financial position for the financial year under review and can meet all its current debt obligations, including its debt covenants, and other financial obligations to its suppliers and staff. Although the Pandemic has had an impact on the business and its performance, Transcend continues to generate strong cash flows which demonstrates the defensive nature of the residential asset class and supports the declaration and payment of its final DPS.

Transcend's decrease in the full periods DPS of 14.42% is mainly a result of once-off City of Johannesburg ("COJ") back-charges of R8.96 million on all Johannesburg-based properties. The charges levied represents increased sewer charges for the 2018, 2019 and 2020 financial years, after COJ reclassified Transcend's portfolio from "block of flats" to "multi-dwelling units". This accounts for 10.51% of the 14.42% decrease in DPS. The company is currently disputing the charges imposed by COJ and is considering remedial action to address these charges.

In addition to those charges, the company has experienced a portfolio-wide increase in vacancies and bad debts. The Pandemic continues to devastate both communities and businesses, as South Africa recently experienced a second wave of infections and rise in positive COVID-19 cases. A decline in economic activity due to the national lockdowns imposed by the South African Government continues to raise concerns around future consumer affordability, as well as pressure on rental escalations and property vacancies (and a drop-off in the overall performance of the market).

31 December 2020 statement of profit or loss

The total comprehensive loss for the year amounts to R42.18 million (2019: R82.05 million profit), of which R34.03 million (2019: R68.31 million profit) is from both continuing and discontinued operations. The decrease in profit is mainly due to the unrealised loss on revaluation of interest-rate swaps of R71.95 million (2019: R13.52 million) and fair value losses of properties of R18.16 million that have been recognised for the 12 months ended 31 December 2020; as well as a loss from discontinued operations of R8.16 million.

The unrealised loss on revaluation of interest-rate swaps is due to a significant decrease in the repo rate and 3-month JIBAR rate during 2020. The headline earnings attributable to equity holders is R5.14 million loss (2019: R66.78 million profit). Total assets at 31 December 2020 amounted to R2.61 billion (2019: R2.85 billion) and decreased with R0.24 billion, mainly due to the sale of investment properties and assets held-for-sale. The total liabilities at 31 December 2020 amounted to R1.47 billion (2019: 1.60 billion).

Cash management

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. Management also 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 loan-to-value ratio ("LTV") to a targeted long-term level of 40%.

At year end, management disposed of Acacia Place (325 units) for a contracted net selling price R109.68 million at date of disposal. Additionally, management is in the process of disposing units on a unit-by-unit basis at 3 other properties: Midrand Village (225 units), De Velde (310 units), and Birchwood Village (360 units). At 31 December 2020, 156 Midrand Village units have been sold and transferred to buyers with a further 44 offers to purchase (sales agreements) in place. Sales on vacant units at De Velde were launched in September 2019 and to date 19 units have been sold and transferred to buyers with a further 54 offers to purchase (sales agreements) in place. The sale of units at Birchwood Village commenced during 2020, and as at year end 23 offers to purchase (sales agreements) are in place and no units have been transferred.

**Transfer to the Main Board of the JSE**

The JSE 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 followed a request by Transcend to migrate to the Main Board as a result of the company fulfilling all the criteria for a Main Board listing as set out in the JSE Listings Requirements.

**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 and operations**

Transcend holds 4,267 units across a portfolio of 22 directly owned properties valued at R2.51 billion, located in Gauteng and the Western Cape. 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 sustainable 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.

At 31 December 2020, Transcend's properties have a Gross lettable area ("GLA") of 242,542m$^2$. Geographically, the properties are located in the following provinces:

| | |
|---|---|
| Gauteng | 81.77% |
| Western Cape | 18.23% |

The above allocation is based on GLA.

**Occupancies and arrears**

Based on existing leases as at 31 December 2020, Transcend's stabilised portfolio occupancy rate is 91.70% based on gross rental income. This excludes all disposal properties (Midrand Village units, De Velde units and Birchwood Village units) which are classified as assets held-for-sale. The occupancy rate for the total portfolio, including units held-for-sale, consisting of all 22 properties, is 86.86% as at the reporting date.

For the full period under review the average occupancy for the stabilised portfolio is 93.36% (and 90.62% for the total portfolio). It is expected that the vacancies of the stabilised portfolio will remain between a range of 4% to 8% for the 2021 financial year.

The total portfolio has an average collection of rental income of 94.39% and arrears of 2.83% of net operating income for the year ended 31 December 2020.

**Acquisitions**
During the current year the company did not acquire any additional properties. Management is in the process of identifying possible investments for acquisition in the next financial year.

**Disposals**
The disposals undertaken by Transcend are part of management's strategy to pay down debt and reduce the company's current LTV. Transcend's portfolio allows for the break-up and sale of individual units to third-party buyers. The sale of these properties/units has assisted the company to generate additional cash and liquidity to support its balance sheet fundamentals and cash management during an uncertain trading environment.

Acacia Place
During 2020, Transcend disposed of the Acacia Place 325-unit property located in Duvha Park, Witbank, Mpumalanga for a contracted selling price of R109.68 million after selling costs. During 2018, this property was identified by management as an under-performing property due to large vacancies from the nonrenewal of bulk leases and the depressed market in Witbank. Management took a decision to sell this property to Instratin Properties Proprietary Limited ("Instratin"). The sale was finalised on 11 December 2020 when the property legally registered and transferred into the name of Instratin. R80 million of proceeds from this sale were used to settle senior-secured debt.

Midrand Village units
Management is in the process of selling units at the Midrand Village property on a unit-by-unit basis. The property consisted of 225 freehold units located in Clayville, Gauteng. It 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 31 December 2020, 156 of the Midrand Village units have been sold and transferred to buyers with a further 44 unconditional offers to purchase (sales agreements) in place in units on that date. Only 25 units remain to be sold at the property.

*Note: All the remaining units (both unconditional and unsold units) at Midrand Village are classified as non-current assets held-for-sale as a significant portion of the total units have been sold (88.89% of units have either sold and transferred or have unconditional sales agreements in place). Although there was a delay in the sale of these units due to effects of the Pandemic and the national lockdown, the requirements of IFRS 5 have been satisfied as the events which caused delays were beyond the entity's control and management remains committed to its plans to sell these units in the short-term, There is also a large degree of certainty that these units will be sold and transferred to buyers within 12 months from 31 December 2020 and consequently all (the remaining units) have been valued at the respective fair values less cost to sell.*

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 initially took a decision to initially dispose of any vacant units at this property. The units have been marketed to home-owner buyers and as at 31 December 2020, 19 units have been sold and transferred with a further 54 unconditional offers to purchase in place on the remaining units.

Only those 54 units with unconditional offers in place at 31 December 2020 have been classified as assets 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 31 December 2020 and are valued on that basis.

Birchwood Village
The Birchwood Village investment property consisted of 360 sectional title units located in Chartwell, Gauteng. This property was also acquired as investment property by Transcend and these units transferred and registered

into the name of Transcend on 31 August 2019. During 2019, management took a decision to also dispose of any vacant units at this property. The units have been marketed to home-owner buyers and at 31 December 2020, no units have been sold and transferred, although 23 units have unconditional offers to purchase in place. Those 23 units with unconditional offers in place have been classified as assets held-for-sale. 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 31 December 2020 and valued on that basis.

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

**Funding**

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

**Debt facilities**
At 31 December 2020, the following interest-bearing borrowings with the Standard Bank of South Africa ("Standard Bank") and Nedbank Limited ("Nedbank") were in place:

| **Bilateral – 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) ** | 28,960 | 2.15% |
| | | |

| **Syndicated 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) *** | 57,669 | 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 (a 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.*
*** On 11 December 2020, the Acacia Place property was sold to Instratin. R80 million of the net proceeds from the sale of the property was applied to reduce Facility C to a principal borrowing of R28.96 million.*
**** A portion of the net proceeds from the sale of units at Midrand Village and De Velde have been applied against Facility E, and reduced the notional amount drawn on of R150 million to a year end principal borrowing of R57.67 million*.

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 syndicated agency agreement ("Agency"). The total facilities are secured by the properties owned by Transcend with a carrying value of R2.51 billion.

The Standard Bank facilities (Facilities A and C) are secured by properties owned by Transcend with a fair value of R1.23 billion. The Agency facilities (Facilities D and E) are secured by properties owned by Transcend with a fair value of R1.28 billion. This security includes the Midrand Village units, De Velde units and Birchwood Village units that are classified as non-current assets held-for-sale and collectively valued at a sales price less cost to sell of R146.22 million (R62.38 million, R63.05 million and R20.79 million respectively).

To date, and in addition to Acacia Place, 156 of the Midrand Village units, 19 of the De Velde units and none of the Birchwood Village units have been sold and transferred to third-party buyers. The security in respect of these sales has been adjusted accordingly for the remaining units. Similarly, after the sale and transfer units at Midrand

Village, De Velde and Birchwood Village the security for the remaining property and units will also be adjusted accordingly.

The terms of all these facilities are three- and five-year interest-only facilities. Interest is payable quarterly. Transcend currently has interest rate swaps on these facilities.

The administrative fee of R2.72 million on the raising of the Standard Bank facilities A, B and C, was capitalised and is amortised over the expected life of the respective loans. Administration and structuring fees of R5.94 million on facility D and facility E were also capitalised and are also amortised over an expected life of 4 years.

There are no restrictive funding arrangements in place as at 31 December 2020.

Shareholder's loan

During the year Transcend also repaid a portion of the shareholder's loan owing to Emira Property Fund Limited ("Emira"). R50 million was paid to Emira in two separate instalments of R40 million and R10 million, paid in June and July 2020 respectively. The shareholder's loan has a principal balance owing of R93.46 million at year end.

Derivative contracts in relation to debt

The total Transcend external bank borrowings are R1.24 billion at 31 December 2020. Three-to-four-year interest rate swaps with a notional amount of R1.04 billion were entered in during 2020 with Standard Bank and Nedbank to hedge this debt exposure. Current interest-bearing borrowings are 83.39% hedged.

At 31 December 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 24 April 2023 | 137,500 | 7.29% |
| Interest rate swap: Expiry 24 April 2023 | 195,000 | 7.10% |
| Interest rate swap: Expiry 17 May 2023 | 92,500 | 7.09% |
| Interest rate swap: Expiry 30 January 2023 | 137,000 | 6.60% |
| Interest rate swap: Expiry 15 May 2023 | 92,500 | 6.55% |

| **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 31 December 2020, 83.39% of the company's interest rate exposure on the various facilities was hedged. This hedging ratio has increased due to the reduction of debt from proceeds received in relation to disposal properties.

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. Consequently, the total derivative liability owing at 31 December 2020 is R85.62 million (31 December 2019: R14.40 million). During April and May 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 optimise the hedge on Transcend's debt exposure.

**Gearing and Interest Cover Ratio**

**LTV**

Transcend's LTV is 53.54% (31 December 2019: 53.37%) based on South African REIT best practices, which is in line the prior year gearing levels. After the deduction of the sub-ordinated shareholder's loan and derivative liabilities this ratio reduces to 46.40% (31 December 2019: 47.55%). Although this (ratio) falls outside the targeted long-term ratio level of 40% LTV, management plans to reduce this LTV within the short-to-medium-term by raising equity and using proceeds from the sale of Midrand Village units, De Velde units and Birchwood Village units to pay down on existing debt facilities.

The following table is pertinent to the company's LTV ratio:

| Metric | 31 December 2020 | 31 December 2019 |
|---|---|---|
| **SA REIT LTV** | 53.54% | 53.37% |
| **LTV excluding sub-ordinated shareholder's loan** | 49.81% | 48.07% |
| **LTV excluding derivative liability** | 46.40% | 47.55% |

The company's valuation policy is to have at least one third of its portfolio valued annually at year end by external registered valuers. However, due to the size of the current portfolio, management's practice has been to appoint independent valuers to value the entire portfolio. Accordingly, Transcend's portfolio has been revalued at 31 December 2020. The value of investment properties has decreased by 4.04% primarily due to units at the De Velde and Birchwood Village properties either being sold and transferred to buyers or being reclassified to non-current assets held-for-sale, as well as an increase in capitalisation rates. These disposals have, however, had a resultant decrease in debt balances at year end. During the reporting period, Transcend's portfolio has performed well and the business continues to generate strong cashflows at a property level which has preserved its portfolio value at 31 December 2020.

At 31 December 2020 the company has a bank debt LTV of 52.69%, with a maximum LTV covenant of 55%.

**Interest Cover Ratio**

Transcend's Interest Cover Ratio ("ICR") requires that in respect of each measurement period and on each measurement date that the ratio is at least 1.60 (one point six zero) times. This ratio can be defined as the ratio EBITDA to gross finance charges plus any fixed or minimum premium payable on prepayment or redemption which is due and payable at the time of calculation (together with capitalised interest thereon outstanding at such time in respect of that measurement period). For the measurement period ending 31 December 2020, Transcend's ICR is 1.64 times based on Transcend's gross finance charges, which is inclusive of interest paid to Emira in respect of its shareholder's loan. Based on net finance charges, the ratio would be 1.67 times for the same measurement period.

## STATEMENT OF FINANCIAL POSITION

| Figures in R'000 | | 2020 | 2019 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Investment properties | 5 | 2 360 727 | 2 460 174 |
| Property and equipment | | 1 761 | 2 541 |
| Loan receivable | | 14 700 | - |
| | | **2 377 188** | **2 462 715** |
| **Current assets** | | | |
| Trade and other receivables | | 9 128 | 6 622 |
| Loan receivables | | 8 000 | - |
| Cash and cash equivalents | | 72 277 | 73 592 |
| | | **89 405** | **80 214** |
| Non-current assets held-for-sale and discontinued operations | 6 | 146 219 | 305 571 |
| **Total assets** | | **2 612 812** | **2 848 500** |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Stated capital | | 1 020 934 | 1 020 934 |
| Retained earnings | | 125 303 | 228 991 |
| | | **1 146 237** | **1 249 925** |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Interest-bearing borrowings | 7 | 1 207 091 | 1 382 356 |
| Loan from shareholders | | - | 92 774 |
| Derivative liabilities | | 85 620 | 13 696 |
| | | **1 292 711** | **1 488 826** |
| **Current liabilities** | | | |
| Interest-bearing borrowings | 7 | 29 239 | 7 650 |
| Loan from shareholders | | 93 461 | 53 754 |
| Trade and other payables | | 51 164 | 44 306 |
| Derivative liabilities | | - | 699 |
| | | **173 864** | **106 409** |
| Liabilities directly associated with non-current assets held-for-sale | | - | 3 340 |
| **Total liabilities** | | **1 466 575** | **1 598 575** |
| **Total equity and liabilities** | | **2 612 812** | **2 848 500** |

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| **Figures in R'000** | **2020** | **2019** |
|---|---|---|
| **Continuing operations** | | |
| Renal income from investment properties | 297 093 | 312 808 |
| Recoveries of operating costs from tenants | 27 703 | 23 085 |
| **Revenue** | **324 796** | **335 893** |
| Property operating expenses | (120 852) | (2017 514) |
| Impairment losses | (10 764) | (6 271) |
| Other income | 7 000 | 3 832 |
| **Net operating income** | **200 180** | **225 940** |
| Other operating expenses | (21 412) | (20 607) |
| **Operating profit** | **178 768** | **205 333** |
| (Loss)/gain on fair value adjustments of properties | (18 156) | 15 434 |
| Unrealised loss on revaluation of interest-rate swaps | (71 950) | (13 522) |
| Net finance charges | (122 688) | (138 940) |
| Finance income | 2 745 | 7 800 |
| Finance costs | (125 433) | (146 740) |
| **(Loss)/profit before taxation** | **(34 026)** | **68 305** |
| Taxation | - | - |
| **(Loss)/profit from continuing operations** | **(34 026)** | **68 305** |
| **Discontinued operation** | | |
| (Loss)/profit from discontinued operations net of taxation | (8 155) | 13 742 |
| **Total comprehensive income for the period** | **(42 181)** | **82 047** |
| | | |
| **Earnings per share** | | |
| Basic and diluted earnings per share (cents) | (32.23) | 62.68 |
| **Earnings per share – continuing operations** | | |
| Basic and diluted earnings per share (cents) | (25.99) | 52.18 |

## STATEMENT OF CHANGES IN EQUITY

| **Figures in R'000** | **Stated capital** | **Retained earnings** | **Total** |
|---|---|---|---|
| **Balance at 1 January 2019** | 1 020 934 | 231 767 | 1 252 701 |
| **Changes in equity** | | | |
| Profit for the year | - | 82 047 | 82 047 |
| Total comprehensive income | - | 82 047 | 82 047 |
| Dividends | - | (84 823) | (84 823) |
| **Balance at 31 December 2019** | **1 020 934** | **228 991** | **1 249 925** |
| | | | |
| **Balance at 1 January 2020** | 1 020 934 | 228 991 | 1 249 925 |
| **Changes in equity** | | | |
| Loss for the year | - | (42 181) | (42 181) |
| Total comprehensive loss | - | (42 181) | (42 181) |
| Dividends | - | (61 507) | (61 507) |
| **Balance at 31 December 2020** | **1 020 934** | **125 303** | **1 146 237** |

## STATEMENT OF CASH FLOWS

| Figures in R'000 | 2020 | 2019 |
|---|---|---|
| **Cash flow from operating activities** | | |
| (Loss)/profit and total comprehensive income for the year | **(42 181)** | **82 047** |
| *Adjustments for*: | | |
| Depreciation of property and equipment | 780 | 767 |
| Finance costs | 125 433 | 146 686 |
| Finance income | (2 745) | (7 800) |
| Changes in fair value of properties | 18 157 | (15 272) |
| Unrealised loss on revaluation of interest rate swaps | 71 950 | 13 522 |
| **Operating profit before working capital changes** | **171 394** | **219 950** |
| Increase in trade and other receivables | (7 149) | (141) |
| Adjustments for impairment losses | 4 643 | 617 |
| Decrease in trade and other payables | 6 858 | (5 578) |
| **Cash generated by operating activities** | **175 746** | **214 848** |
| Finance income received | 2 757 | 7 287 |
| Finance costs paid | (132 278) | (139 953) |
| Operating cash flow from discontinued operations | 15 532 | - |
| **Net cash from operating activities** | **61 757** | **82 182** |
| | | |
| **Cash flows from investing activities** | | |
| Proceeds from sales of non-current assets held-for-sale | 110 157 | 31 244 |
| Proceeds from sales of investment property | 13 728 | - |
| Investment properties acquired | - | (851 092) |
| Property and equipment acquired | - | (239) |
| Additions to investment property | (8 985) | - |
| Additions to non-current assets held-for-sale | (1 758) | - |
| Proceeds from discontinued operations | 85 916 | - |
| **Net cash generated from/(utilised in) investing activities** | **199 058** | **(820 087)** |
| | | |
| **Cash flow (used in)/from financing activities** | | |
| Interest-bearing borrowings received | 3 000 | 798 657 |
| Interest-bearing borrowings repaid | (152 898) | - |
| Loans from related parties received* | - | 800 000 |
| Loans from related parties settled* | - | (843 958) |
| Derivative liability settled | (725) | - |
| Shareholder loan repaid | (50 000) | - |
| Dividends paid | (61 507) | (84 823) |
| **Net cash (utilised by)/generated from financing activities** | **(262 130)** | **669 876** |
| | | |
| Increase in cash and cash equivalents | **(1 315)** | **(68 029)** |
| Cash and cash equivalents at beginning of the year | 73 592 | 141 621 |
| **Cash and cash equivalents at end of the year** | **72 277** | **73 592** |

*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.

By 31 December 2019, all of the 2,159 units had 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 ended 31 December 2020, 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 2019, 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 2020. At the date of authorisation of the financial statements for the year ended 31 December 2020, the following standard was adopted:

**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 in the annual financial statements.

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

Other changes to standards and interpretations effective for the year ended 31 December 2020:

| Standard or interpretation | Effective date | Expected impact on financial statements |
|---|---|---|
| Amendments to References to Conceptual Framework in IFRS Standards | 1 January 2020 | Application of the standards did not have an impact on the company's financial reporting. |
| Interest Rate Benchmark Reform Phase 1 (Amendments to IFRS 9, IAS 39 and IFRS 7) | 1 January 2020 | Application of the standards did not have an impact on the company's financial reporting. |
| Definition of a Business (Amendments to IFRS 3) | 1 January 2020 | Application of the standards did not have an impact on the company's financial reporting. |

**Accounting standards and interpretations not yet effective**

There are new or revised accounting standards and interpretations in issue that are not yet effective. Management does not expect the adoption of the amendments to result in material changes of the current disclosure requirements.

## 2. Reconciliation of profit for the year to headline earnings

**Earnings and headline earnings**

| | 2020 | 2019 |
|---|---|---|
| **Reconciliation of basic earnings to headline earnings** | | |
| (Loss)/profit for the year attributable to Transcend shareholders | (42 181) | 82 047 |
| Change in fair value of properties | 37 040 | (15 272) |
| **Headline earnings attributable to Transcend shareholders** | **(5 141)** | **66 775** |
| 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) | (32.23) | 62.68 |
| Headline and diluted headline earnings per share (cents) | (3.93) | 51.01 |

## 3. Sectoral split

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

## 4. Lease expiry profile

| 2020 | | |
|---|---|---|
| Based on: | Units (%) | Gross Rental (%) |
| Vacancy | 12.2 | 13.1 |
| Monthly | 87.8 | 86.9 |
| 30 June 2021 | 0.0 | 0.0 |
| 31 December 2021 | 0.0 | 0.0 |
| | 100.0 | 100.0 |

| 2019 | | |
|---|---|---|
| Based on: | Units (%) | Gross Rental (%) |
| Vacancy | 5.6 | 7.5 |
| Monthly | 94.4 | 92.5 |
| 30 June 2020 | 0.00 | 0.00 |
| 31 December 2020 | 0.00 | 0.00 |
| | 100.00 | 100.00 |

***Note:*** *The lease expiry profile presented above pertains to the total portfolio, including all units classified as held-for-sale.*

### 5. Investment properties

| Investment properties | | |
|---|---|---|
| Opening fair value of investment properties | 2 460 174 | 2 588 000 |
| Fair value adjustment on investment properties | (15 872) | 15 010 |
| Acquisitions at cost | - | 44 500 |
| Bond and transfer costs capitalised | - | 631 |
| Capitalised expenditure | 8 984 | 5 363 |
| Purchase consideration escalation | - | 15 123 |
| Disposals | (13 728) | - |
| Investment properties transferred to non-current assets held-for-sale | (78 831) | (208 453) |
| **Closing balance** | **2 360 727** | **2 460 174** |

All of the company's investment properties were valued at year-end by Real Insight (Pty) Ltd ("Real Insight"), a registered valuer in terms of Section 19 of the Property Valuers Professional Act (Act No. 47 of 2000). The investment properties are valued as at 31 December 2020 by capitalising the net contractual income derived from the properties for a period of one year in advance by an applicable capitalisation rate.

### 6. Non-current asset held-for-sale

| Investment property classified as held-for-sale | | |
|---|---|---|
| Opening fair value of property assets | 305 571 | 127 500 |
| Investment properties transferred to assets held-for-sale | 78 831 | 208 453 |
| Capitalised costs | 2 825 | 965 |
| Disposals * | (219 840) | (31 609) |
| Fair value adjustment of assets held-for-sale | (21 168) | 262 |
| **Closing balance** | **146 219** | **305 571** |

* Disposals relate to the sale of Acacia place for R109.68 million and the sale of units in Midrand Village for R100.77 million and De Velde for R9.39 million.

The investment properties classified as properties held-for-sale relate to properties that the Board approved to be recovered through sale rather than through use. The Midrand Village, De Velde and Birchwood Village 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. These properties and/or units have been reclassified from investment properties to non-current assets held-for-sale where the requirements of IFRS 5 have been satisfied and there is a large degree of certainty that these units will be sold and transferred to buyers within 12 months of year end.

### 7. Interest-bearing borrowings

Refer the section on Funding for details regarding the debt facilities held by the company.

### 8. 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 sub-ordinated shareholder's loan to Transcend. As at 31 December 2020, the loan payable is R93.46 million (2019: R146.53 million). The total principal borrowings of the loan were repayable in June 2020, however, Transcend extended the repayment of R93.46 million for an additional 12 months with repayment in June 2021. Interest was initially payable to Emira quarterly at an effective rate of JIBAR plus 3.5%. Refinancing of this loan attracts interest payable to Emira quarterly at an effective rate of JIBAR plus 3.95%. This loan is sub-ordinated to all senior-secured borrowings.

IHS RF (Pty) Ltd and IHS (SAWHF Interest) (Pty) Ltd have shareholdings of 11.46% and 5.52% respectively.

Transcend is also 5.35% 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. IHS AM charged Transcend property management fees of R13.23 million (2019: R13.75 million) during the period in accordance with the property 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 R22.81 million (2019: R24.37 million) during the period in accordance with the property management agreement.

Transcend does not have any subsidiaries.

**9. Summarised segmental analysis**

For the year under review, Transcend has three reportable segments based on the entity's strategic business segments, namely, Gauteng, the Western Cape and Mpumalanga (Discontinued operations). 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.

The Mpumalanga operating segments represents a single property, Acacia Place. This property was sold on 11 December 2020 and, therefore, has been presented as a discontinued operations operating segment.

| Figures in R'000 | Gauteng | Western Cape | Reconciliation ** | Total continuing operations | Mpumalanga (Discontinued operation *) | Total |
|---|---|---|---|---|---|---|
| **2020** | | | | | | |
| **STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME** | | | | | | |
| Rental income from investment properties | 241 253 | 55 840 | - | 297 093 | 15 609 | 312 702 |
| Recoveries of operating costs from tenants | 25 097 | 2 606 | - | 27 703 | 3 221 | 30 924 |
| **Revenue** | 266 350 | 58 446 | - | 324 796 | 18 830 | 343 626 |
| Property operating expenses | (102 014) | (18 745) | (93) | (120 852) | (7 857) | (128 709) |
| Impairment losses | (6 310) | (4 454) | - | (10 764) | (394) | (11 158) |
| Other property income | 4 000 | 1 088 | 1 912 | 7 000 | 154 | 7 154 |
| **Net operating income** | 162 026 | 36 335 | 1 819 | 200 180 | 10 733 | 210 913 |
| Other operating expenses | (699) | (900) | (19 813) | (21 412) | (16) | (21 428) |
| **Operating profit** | 161 327 | 35 435 | (17 994) | 178 768 | 10 717 | 189 485 |
| (Loss)/gain on fair value adjustment of properties | (22 002) | 3 846 | - | (18 156) | (18 884) | (37 040) |
| Unrealised gain/(loss) on revaluation of interest rate swaps | - | - | (71 950) | (71 950) | - | (71 950) |
| Net finance charges | 279 | 22 | (122 989) | (122 688) | 12 | (122 676) |
| Finance income | 285 | 22 | 2 438 | 2 745 | 12 | 2 757 |
| Finance costs | (6) | | (125 427) | (125 433) | - | (125 433) |
| **Profit/(loss) before taxation** | 139 604 | 39 303 | (212 933) | (34 026) | (8 155) | (42 181) |
| Taxation | | | | | | |
| **Profit/(loss) and total comprehensive income for the period** | 139 604 | 39 303 | (212 933) | (34 026) | (8 155) | (42 181) |

| Figures in R'000 | Gauteng | Western Cape | Reconciliation ** | Total continuing operations | Mpumalanga (Discontinued operation *) | Total |
|---|---|---|---|---|---|---|
| **STATEMENT OF FINANCIAL POSITION** | | | | | | |
| Investment properties | 1 936 115 | 424 612 | - | 2 360 727 | - | 2 360 727 |
| Non-current assets held- for-sale | 83 169 | 63 050 | - | 146 219 | - | 146 219 |
| Other assets | 5 714 | 718 | 99 434 | 105 866 | - | 105 866 |
| Interest-bearing borrowings | - | - | 1 236 330 | 1 236 330 | - | 1 236 330 |

*The Mpumalanga operating segments represents a single property, Acacia Place. This property was sold on 11 December 2020 and has therefore been presented as a discontinued operations operating segment.

**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:

> 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.

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

> Mpumalanga: Acacia Place

| 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/(loss)** | 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 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/(loss) before taxation** | 211 858 | 29 656 | (173 209) | 68 305 | 13 742 | 82 047 |
| Taxation | - | - | - | - | - | - |
| **Profit/(loss) 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 | - | 2 460 175 | - | 2 460 175 |
| 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 |

Included in the 2019 geographical area are the following investment properties:
> 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.
> Western Cape: Parkland, Alpine Mews, De Velde and Vanguard Village
> Mpumalanga: Acacia Place

## 10. Reconciliation of profit for the year to distributable earnings

**Distribution statement**

| | 2020 | 2019 |
|---|---|---|
| (Loss)/profit for the year attributable to Transcend shareholders * | (42 181) | 82 047 |
| **Calculation of SA REIT Funds From Operations ("FFO")** | | |
| Revaluation of properties ** | 37 040 | (15 272) |
| Unrealised loss on interest rate swaps | 71 950 | 13 522 |
| Depreciation*** | 780 | 767 |
| **FFO** | **67 589** | **81 064** |
| | | |
| *Company specific adjustments* | | |
| Acquisition and transaction costs expensed **** | 2 911 | 3 654 |
| Surplus working capital available for distribution ***** | 219 | 34 |
| Amortised loan raising fee | (1 583) | (925) |
| Compensation for loss of vacancy on units held-for-sale****** | 3 841 | 1 438 |
| **Distribution payable to shareholders** | **72 977** | **85 265** |
| | | |
| **Total dividend** | | |
| Interim | 15 838 | 39 595 |
| Final | 57 139 | 45 671 |
| Actual number of shares in issue ('000) | 130 895 | 130 895 |
| | | |
| **Dividend per share (cents)** | 55.75 | 65.14 |
| Interim | 12.10 | 30.25 |
| Final | 43.65 | 34.89 |
| | | |
| **FFO per share (cents)** | 51.64 | 61.93 |
| Full period | 51.64 | **61.93** |

*Attributable to continuing and discontinued operations.

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

*** Total depreciation of R0.78 million (R0.77 million) is recognised in the statement of profit or 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.

**** Acquisition and transaction costs expensed relate to permanent differences that are not deductible for tax purposes.

***** 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, De Velde and Birchwood 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 Deeds Office. During 2020, 252 units (sales and unconditional offers) were sold unconditional at these three properties. The Deeds office was closed for a period of two months from April to May 2020 and intermittently thereafter due to the effect of COVID-19 and the national lockdown and contributed to delays in property transfers.

Note: Transcend is compliant with the SA REIT best practice recommendations issued November 2019, except for specific company adjustments approved by the Board. Refer to the table above for detailed comments on the company specific adjustments made.

**11. 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.

Based on management's business model trade and other receivables, loan receivable and cash and cash equivalents are classified as financial assets at amortised cost. The trade and other receivables as well as loan receivable are of a short-term nature and cash-flow represents solely payments on principal. Cash and cash equivalents consist of deposits at financial institutions which earn interest. With both assets there are an insignificant risk of change in value. The performance of the assets is reviewed monthly and the company does not receive compensation for the assets. 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, loan receivable and cash and cash equivalents as financial assets measured at amortised cost less impairment. At 31 December 2020, the company 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 measure at amortised cost. Derivative liabilities are classified as financial liabilities subsequently 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 2020** | | | | |
| **Assets** | | | | |
| Investment properties | 2 360 727 | - | - | 2 360 727 |
| Non-current assets held-for-sale | 146 219 | - | - | 146 219 |
| | **2 506 946** | - | - | **2 506 946** |
| **Liabilities** | | | | |
| Derivative liabilities | (85 620) | - | (85 620) | - |
| | **(85 620)** | - | **(85 620)** | - |
| **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)** | - |

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**

At year end properties are classified as investment properties or non-current assets held-for-sale. Under each of these classifications the properties are carried at their respective fair values.

**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 4 financial years has been to appoint independent valuers to value the entire portfolio. Investment properties are valued using a level 3 model.

All of the company's investment properties were valued at 31 December 2020 by an external registered valuer. The valuations were reviewed by the executive directors and asset managers and presented to the Investment Committee and then to the Audit and Risk Committee for approval on 25 November 2020.

The investment properties were valued 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 investment 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.

Note: Midrand Village, De Velde and Birchwood Village units are in the process of being disposed of and where necessary have been revalued to their respective fair values less costs to sell based on the contractual selling prices of the property and/or units and, where appropriate, have been reclassified from investment properties to non-current assets held-for-sale. 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;
- Growth rate;
- Vacancy factor;
- Bad debt factor; and
- Capitalisation rate.

The inputs used per property is detailed in the schedule below:

| Property Name | Fair value R'000 | Expected net operating income R'000 | Growth Rate | Vacancy Factor | Bad debt Factor | Capitalisation rate |
|---|---|---|---|---|---|---|
| **Investment property** | | | | | | |
| **Secured by Standard Bank Facilities A and C** | | | | | | |
| 67 on 7th | 88 000 | 7 924 | 2.00% | 5.00% | 1.50% | 9.00% |
| Alpine Mews | 41 500 | 4 050 | 2.00% | 7.00% | 1.50% | 9.75% |
| Ekhaya Fleurhof | 62 300 | 6 070 | 2.00% | 6.00% | 1.50% | 9.75% |
| Ekhaya Jabulani | 94 800 | 9 242 | 2.00% | 5.00% | 1.50% | 9.75% |
| Jackalberry Close | 108 300 | 9 749 | 2.00% | 5.50% | 1.50% | 9.00% |
| Kensington Place | 35 900 | 3 232 | 1.50% | 4.00% | 1.50% | 9.00% |
| Molware | 139 000 | 12 854 | 2.00% | 6.00% | 1.50% | 9.25% |
| Parklands | 114 900 | 10 633 | 2.00% | 3.50% | 1.50% | 9.25% |
| Protea Glen | 57 600 | 5 906 | 2.00% | 6.50% | 1.50% | 10.25% |
| Silverleaf Estate | 41 800 | 3 869 | 2.00% | 4.00% | 1.50% | 9.25% |
| Vanguard Village | 38 000 | 3 610 | 2.00% | 4.50% | 1.50% | 9.50% |
| Village Seven, Stone Arch Village | 52 600 | 4 738 | 2.00% | 4.00% | 1.50% | 9.00% |
| Terenure Estate | 207 200 | 19 170 | 2.00% | 5.00% | 1.50% | 9.25% |
| Theresa Park Estates | 98 200 | 8 990 | 2.50% | 4.00% | 1.50% | 9.15% |
| Tradewinds | 51 000 | 4 586 | 1.50% | 4.00% | 1.50% | 9.00% |
| **Secured by Agency Facilities D and E** | | | | | | |
| Urban Ridge West | 157 400 | 14 564 | 2.00% | 6.50% | 1.50% | 9.25% |
| Urban Ridge East | 117 785 | 10 505 | 2.00% | 6.50% | 1.50% | 9.25% |
| Urban Ridge South | 143 900 | 13 308 | 2.00% | 6.00% | 1.50% | 9.25% |
| Southgate Ridge | 211 650 | 19 979 | 2.00% | 4.50% | 1.50% | 9.50% |
| Birchwood Village | 268 680 | 22 660 | 2.00% | 6.00% | 1.50% | 8.75% |
| De Velde | 230 212 | 19 099 | 2.00% | 4.00% | 1.50% | 8.25% |
| **Total** | **2 360 727** | **214 738** | **1.98%** | **5.12%** | **1.50%** | **9.26%** |

Expected net operating income

The monthly average rental income ranges from R4 318 to R10 412 (2019: R4 218 to R10 327) per unit. Generally, the rentals are market related when compared to similar buildings in comparable areas. With the exclusion of the De Velde and Birchwood Village properties where sales are in progress and some units are classified as assets held-for-sale, the rental income spread is narrower and ranges from R4 318 to R6 779 for the stabilised portfolio. Expected net operating income represents net rental income per unit after the deduction of property related operating expenses, as well as vacancy and bad debt provisions.

Growth rate

The range for rental escalation is 1.5% to 2.5% (2019: 2.5% to 3.5%). 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. This range is consistent across all properties included in the portfolio.

Vacancy and bad debt factors

A reasonable vacancy factor of 3.5% to 7.5% and bad debt factor of 1.5% (2019: collectively 3.5% to 7.5%) 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 and bad debts are market related. This range for both inputs is consistent across all properties included in the portfolio.

Capitalisation rate

The capitalisation rate ranges from 8.25% to 10.25% (2019: 8% to 10%). The capitalisation rate applied was derived using an appropriate risk-free rate and adding on property related risk and illiquidity risk related to property, as well as further amounts related to each property's construction, size, 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. Capitalisation rates for those investment properties in the stabilised portfolio range from 9.00% to 10.25%.

Sensitivity to changes in key assumptions:

Transcend's portfolio consists fully of residential properties servicing the affordable market, located across 2 provinces in South Africa. Units consist primarily of 2 bedroom units (86.36% of the total portfolio of 4 267 units), and therefore no distinction has been made in relation to key assumptions and the impact of unobservable inputs. The portfolio is generic in terms of offering, differences in expected income, capitalisation and growth rates pertain to the property location and affordability of that market segment. For this reason, management assesses the entire portfolio and does not aggregate properties according to location.

The valuations of investment properties are sensitive to changes in the unobservable inputs used in such valuations. Changes to one of the unobservable inputs, while holding the other inputs constant, have an effect on the fair value of the investment property and fair value adjustments in profit or loss. 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:

| | **Investment property 2020** | **Fair value adjustment/ movement 2020** |
|---|---|---|
| **Expected net operating income** | | |
| Increase in income +100bps | 19 352 | 19 352 |
| Decrease in income -100bps | (27 778) | (27 778) |
| **Capitalisation rates** | | |
| Increase in cap rates +25bps | (62 922) | (62 922) |
| Decrease in cap rates -25bps | 66 474 | 66 474 |
| **Growth rate** | | |
| Increase in rates +100bps | 30 408 | 30 408 |
| Decrease in rates -100bps | (38 834) | (38 834) |
| **Vacancy and bad debt factor** | | |
| Increase in factor +100bps | (38 834) | (38 834) |
| Decrease in factor -100bps | 30 408 | 30 408 |

**Non-current assets held-for-sale - Valuation process**

Properties being disposed of and classified as non-current assets held-for-sale include the Midrand Village, De Velde and Birchwood Village units. These properties/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 the key inputs on profit or loss and fair value are as follows:

| | Non-current assets held-for-sale 2020 | Fair value effect / movement 2020 |
|---|---|---|
| **Contractual selling price** | | |
| Increase in price +500bps | 7 814 | 7 814 |
| Decrease in price -500bps | (7 814) | (7 814) |
| | | |
| **Costs to sell** | | |
| Increase in price +500bps | (504) | (504) |
| Decrease in price -500bps | 504 | 504 |

**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 2020, 83.39% 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 2020, the derivative financial liabilities relating to interest rate swaps were fair valued, resulting in an increase of R71.95 million (2018: R13.52 million increase) in the liability and a corresponding fair value movement in profit or loss.

The effect of changes in the key inputs on profit or loss and fair value are as follows:

| | Derivative liability | Fair value adjustment/ movement |
|---|---|---|
| Increase in JIBAR +25bps | (6 536) | (6 536) |
| Decrease in JIBAR -25bps | 6 536 | 6 536 |

**Summary of financial performance and relevant South African Real Estate Investment Trust supplemental performance measures**

Financial performance indicators:

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Dividend per share (cents) | 55.75 | 65.14 |
| Shares in issue (‘000) | 130 895 | 130 895 |
| Net property expense ratio * | 32.62% | 27.77% |
| Gross property expense ratio * | 38.37% | 32.73% |
| Net total expense ratio * | 39.83% | 34.36% |
| Gross total expense ratio * | 44.96% | 38.87% |

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

The following SA REIT performance measures were calculated based on the results from continuing operations.

| | 2020 | 2019 |
|---|---|---|
| Funds From Operations per share | 51.63 | 61.93 |
| Net Asset Value (R'000) | 1 161 049 | 1 217 775 |
| Cost-to-income ratio | 46.87% | 39.78% |
| Administrative cost-to-income | 6.59% | 6.13% |
| Vacancy rate | 10.04% | 7.50% |
| All-in weighted average cost of debt | 8.80% | 9.80% |
| Loan-to-value | 53.54% | 53.37% |
| Net initial yield | 7.03% | 7.42% |

**12. Outlook**

The effects of the Pandemic continue to devastate the global economy, with significant negative impact on emerging markets. Financial markets have been severely disrupted, seeing extreme volatility and capital outflows from developing countries.

South Africa's economic growth is expected to contract by about 7.2 percent in 2020 because of the lockdown restrictions imposed to help limit the spread of the coronavirus. This, coupled with the country's 2020 credit rating downgrades, the unreliability of electricity supply by ESKOM, and additional commitments by Government to fund financially distressed state-owned enterprises ("SOE's") has compounded the effects of weak investor confidence, off the back of an already struggling economy.

Since the initial lockdown in March 2020, consumers at all income levels have reduced spending. During 2020, authorities prioritised income support and wage subsidies for workers, alongside tax relief, lower interest rates and favourable loan schemes to support businesses. A low interest rate environment has been welcomed and has managed to provide some relief to most. Interest rates being cut to all-time lows has eased interest debt burdens, and to some extent has resulted in an added buoyancy to the residential home-owner's market.

The implications of the Pandemic continue to place pressure on the office and retail sectors as South Africans retreat to the safety of their homes and adopt a "work-from-home" philosophy. Going forward, this scenario may, however, show the residential asset class to be a more attractive investment alternative for the Real Estate investor market.

Transcend remains well positioned, with a clearly defined and focused strategy of owning well-located, quality residential properties in high demand areas. Its portfolio services an affordable "sweet spot" for the R4 000 to R7 500 residential rental market. During the Pandemic, Transcend's properties have proven more resilient than other traditional property types, avoiding the significant increases in vacancies or rental reversions experienced by other property types. Management's area of focus for the next 12 months will be on preserving a quality tenant base with strong cash collections on rentals, notwithstanding the fact that tenants are currently facing increased economic pressures. The company also has a strong acquisition pipeline in a market where acquisition yields have moved out, presenting a good buying opportunity for yield accretive properties.

During the year of review, Transcend has outperformed the Residential Real Estate market national occupancy and "tenant good standing" averages as published by Tenant Profile Network (Pty) Ltd ("TPN"). The portfolio has remained resilient and achieved a 93.36% average occupancy on the stabilised rental portfolio for the full period under review and continues to show an improving trend in occupancies moving into 2021. Collections also remained strong at 94.39%, which has supported the businesses current cash position and ability to make a 100% pay-out in its year end distribution. These collections levels have remained high into 2021, with a 101% collection ratio on current tenants for January 2021, further reflecting the positive cash generated from the net operating activities of the portfolio.

Currently, there is pressure on top-line revenue growth, whilst at the same time some expenses are expected to rise at rates which is well above inflation. Cost management has become and will continue to be a business imperative and is a critical component of the future performance of the company. Higher than inflationary escalations imposed by various municipal 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 municipal councils to address these cost increases which may severely impact on already stretched tenants. Management will continue to focus its efforts on cost management and identify portfolio-wide cost efficiencies to support its growth strategy.

Although the current environment remains unpredictable, the company expects the 2021 DPS to be at least in line with the current year's DPS due to the resilience of Transcend's portfolio, notwithstanding the disposal of Acacia Place and units at Midrand Village, De Velde and Birchwood Village.

This forecast assumes no further material deterioration in the macroeconomic environment relative to current levels; that no major tenant failures will occur and that tenants will be able to absorb increases in municipal and utility costs; and no further Pandemic outbreaks or national lockdowns will be imposed by the South African Government. Forecast rental income is based on contractual lease terms and anticipated market related renewals.

This forecast is the responsibility of the Board and has not been reviewed or reported on by the auditors. The Board has resolved to maintain the current dividend pay-out ratio of 100% of distributable earnings. The policy is reviewed on a bi-annual basis and any changes will be communicated to shareholders at least 12 months before any changes are implemented. Management and the Board continues to focus their efforts on good cash management by maintaining sound financial and liquidity positions.

**13. Subsequent events and changes to the Board**

In line with IAS 10 Events After the Reporting Date, the declaration of the final dividend of 43.65 cents per share, as disclosed in Note 15 Payment of final dividend, occurred after the end of the reporting year 31 December 2020, resulting in a non-adjusting event that is not recognised in the financial statements.

Nicholas Watchorn was appointed to the Board as an executive director and Chief Financial Officer ("CFO") of the company, with effect from 1 March 2021.

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.

**14. Liquidity and going concern**

The company earned a total comprehensive loss for the year ended 31 December 2020 of R42.18 million (2019: R82.05 million profit). As of that date, the company had a positive net asset value of R1.15 billion (2019: R1.25 billion). The company's current assets exceed its current liabilities by R61.76 million (2019: R279.38 million). Current assets include R146.22 million of non-current assets held-for-sale which are expected to be realised for cash in the next 12 months. Excluding those non-current assets held-for-sale, current assets are R89.41 million which is R84.56 million less than current liabilities at the reporting date.

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 from the reporting date. The company is currently within covenant in respect of its LTV and ICR requirements. Included in current liabilities is a shareholder's loan of R93.46 million which is repayable and 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 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 and payment of the final dividend. Future cash reserves used to settle current liabilities will be generated primarily through property operating income.

**15. Payment of final dividend**

The Board has approved, and notice is hereby given of a final dividend of 43.65184 cents per share for the six months ended 31 December 2020. This brings the full year distribution to 55.75156 cents per share (2019: 65.14150 cents per share) for the year ended 31 December 2020. The dividend will be paid from distributable income.

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 34.92147 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, 12 February 2021, 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, 20 April 2021 |
| Shares trade ex-dividend | Wednesday, 21 April 2021 |
| Record date | Friday, 23 April 2021 |
| Payment date | Monday, 26 April 2021 |

Share certificates may not be dematerialised or rematerialised between Wednesday, 21 April 2021 and Friday, 23 April 2021, both days inclusive.

In respect of dematerialised shareholders, the dividend will be transferred to CSDP accounts/broker accounts on Monday, 26 April 2021. Certificated shareholders' dividend payments will be deposited on or about Monday, 26 April 2021.

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

| | |
|---|---|
| Myles Kritzinger | Myles Kritzinger |
| Chief Executive Officer | Chief Financial Officer (Acting) |

Johannesburg
15 February 2021

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

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