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 2021

Highlights and Key Performance Measures:

Financial Metrics:

Distribution per share (cents)	56.39 (1.15% year-on-year increase)
Distribution per share pay-out ratio	100% for full year distribution
Net Asset Value (per share Rand value)	R8.08[1] (2020: R8.87)
Loan-to-value ("LTV")	38.24%, *Normalised LTV 44.92%*[2] (2020: 52.69%)

Operational Metrics:

Total units	4,012
Property value	R2.34 billion
Portfolio occupancy (31 December 2021)	91.21%[3]
Average portfolio occupancy for full reporting period	93.20%[3]
Portfolio arrears (as percentage of revenue)	0.86%[4]
Total portfolio collections for the year	97.16%

Treasury Highlights:
- Successfully concluded an equity capital raise of R155.94 million
- Refinanced senior debt totalling R824.68 million on more favourable terms
- Structured and executed the company's first green loans
- Secured a R100 million revolving credit facility ("RCF")
- Extended weighted average senior debt maturity to 2.87 years with no maturities in the next 12 months
- Fully settled shareholder's loan of R93.46 million via senior debt and cash

Other Highlights:
- Registered 3,136 units to be certified as Excellence in Design for Greater Efficiencies ("EDGE") compliant, obtained preliminary certification for 1,015 units
- Concluded agreements to acquire 442 units at a total cost of R253.50 million. The transfer of these units will occur within the first quarter of 2022
- Successfully sold 269 units (R296.05 million) in the 2021 financial year and net sales proceeds were used to reduce LTV

Commentary

Results

Distribution

On the 11th of February 2022, the board of directors of the company (the "Board") declared a final dividend per share ("DPS") of 31.18 cents per share for the six months ended 31 December 2021. This brings the full year distribution to 56.39 cents per share (2020: 55.75 cents per share), being a 1.15% increase year-on-year. Distributable earnings increased by R11.14 million to R84.11 million in 2021. R9.61 million of the increase related to an antecedent dividend resulting from Transcend's capital raise concluded in December 2021. The

[1] Based on the South African Real Estate Investment Trust ("SA REIT") Association best practice recommendations
[2] 38.24% represents LTV as prescribed by bank definition. By excluding cash proceeds of R155.94 million from the December capital raise, Transcend's normalised LTV is 44.92%. See LTV bridge in Gearing section for additional information.
[3] Occupancy based on units and excludes units which are currently being disposed of. On a full portfolio basis (including units being disposed of), occupancies as at 31 December 2021 were 89.53% and the 2021 average occupancies were 91.24%.
[4] Calculated as trade receivables net of provision for bad debts as a percentage of revenue.

antecedent dividend is included in accordance with SA REIT Association best practice recommendations. The property portfolio performed slightly better when compared to the prior reporting period.

This distribution is backed by a 97.16% 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 2021. Despite the persistent negative economic effects created by the Covid-19 pandemic (the "Pandemic"), Transcend has improved its financial position for the financial year under review and met all of its debt obligations, including its debt covenants, and other financial obligations to its suppliers and staff. 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.

Given the continued uncertainty surrounding the financial impact of the Pandemic on Transcend, its tenants and other stakeholders, Transcend elected not to provide distribution guidance for 2021. Instead, the company communicated the intention of distributing at a minimum what was distributed in 2020.

Equity capital raise
In December 2021, Transcend issued 33.04 million new shares at a clean price of R4.61, resulting in a total capital raise of R155.94 million (the "Capital Raise Proceeds"). The full Capital Raise Proceeds were raised in cash and are recorded on the company's balance sheet as at 31 December 2021. Over financial year end, R111.87 million is included as part of the cash and cash equivalents balance and the remaining R44.07 million was applied towards Transcend's RCF. Re-draw of the RCF is unconditional.

The Capital Raise Proceeds, together with a new debt facility will be utilised to acquire two new properties, consisting of 442 units, from two separate vendors at a total purchase price of R253.50 million.

Debt re-finance
In the six months from June 2021, Transcend successfully implemented a more efficient debt structure to attract competitive pricing on new and existing debt facilities. As part of the security re-structure process, Transcend refinanced notional facilities totalling R824,68 million on more favourable terms and pricing. As at 31 December 2021, Transcend's weighted average life of senior facilities was extended to 2.87 years and no facilities expire within the next 12 months.

Statement of Profit or Loss
The total comprehensive profit for the year amounts to R219.76 million (2020: R42.18 million loss). The increase in profit is mainly due to the unrealised gain on revaluation of interest-rate swaps of R52.08 million (2020: R71.95 million loss) and fair value gains of property of R110.64 million, offset by a R7.13 million provision for the sale of non-current assets held for sale (2020: aggregated R18.16 million loss) that have been recognised for the 12 months ended 31 December 2021.

Statement of Financial Position
Total assets at the end of the period under review amounted to R2.52 billion (2020: R2.61 billion) and decreased by R90.29 million, mainly due to the R297.68 million sale of property, offset by a R110.64 million fair value increase to property and a R68.86 million increase in cash and cash equivalents. The total liabilities at the end of the reporting period amounted to R1.09 billion (2020: R1.47 billion), mainly due to the sale of units and repayment of the shareholder loan.

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 strong 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 properties within the portfolio where better use can be derived through sale rather than rental. Proceeds are used to pay down debt and reduce the company's LTV.

During the 2021 financial year, management identified two additional properties in the portfolio where better use could be attained through sale rather than rental. At the end of December 2021, Transcend was in the process of disposing of 5 properties on a unit-by-unit basis: Midrand Village, De Velde, Birchwood Village, Stone Arch Village and Vanguard Village.

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 4,012 units across a portfolio of 22 directly owned properties valued at R2.34 billion, located in Gauteng and the Western Cape. Transcend splits the portfolio into two sub-portfolios based on how best use can be attained: either through sale or rental. As at 31 December 2021, five properties were designated for sale (the "Sale Portfolio") and the remaining 17 for rental (the "Rental Portfolio").

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.

As at 31 December 2021, Transcend's properties have a gross lettable area ("GLA") of 220,403m^2.

Geographically, the properties are in the following provinces:

Gauteng	86%
Western Cape	14%

The above allocation is based on GLA.

Utilities
Utilities continue to escalate at a rate higher than inflation. Electricity has increased between 13% and 15% and other utilities like water, sewer, refuse and municipal rates have increased by between 2% and 10%. On average, 50% of total utilities are recovered from tenants. These costs are closely monitored and where possible management is implementing initiatives to reduce the effects of these costs on the overall portfolio.

Occupancies and Arrears
Based on existing leases at 31 December 2021, Transcend's Rental Portfolio unit occupancy rate is 91.21%. For the full period under review, the average unit occupancy for the Rental Portfolio is 93.20% It is expected that the vacancies of the Rental Portfolio will remain between a range of 4% to 9% for the 2022 financial year. By including the Sale Portfolio, total average portfolio unit vacancies for the year were 91.24%.

The total portfolio has an average collection of rental income of 97.16% and arrears of 0.86% of net operating income for the year ended 31 December 2021.

Acquisitions
During the current year, the company did not acquire any additional properties.

Post year end, Transcend is in the process of acquiring two properties for a total purchase price of R253.50 million. The Block (R151.5 million), located in Belville, Cape Town, consisting of 253 units ("The Block") and Stoneleigh (R102 million), a 189-unit development, located in Brakpan, Gauteng ("Stoneleigh") will be acquired from International Housing Solutions Fund II and Renico Construction respectively. Both acquisitions are unconditional and are pending transfer and mortgage bond registration.

Transcend will fund the purchase price with a combination of the Capital Raise Proceeds and commercial bank debt. The commercial debt has been secured and is only conditional on the transfer of properties and subsequent mortgage bond registration.

Transfer of ownership of both properties are in process and is expected to reach conclusion by mid Q1 2022. Risks and rewards have, however, already passed to Transcend in respect of Stoneleigh as a 1 January 2022 effective date transaction. Ownership of The Block will transfer on property transfer date.

Greening of portfolio

In 2021, Transcend registered 3,136 units with the Green Building Council of South Africa (the “GBCSA”) and committed to certifying these units in accordance with the Excellence in Design for Greater Efficiencies (“EDGE”) requirements (the “Greening Strategy”). By the end of December 2021, Transcend received preliminary certification for 1,015 units. Management expects to obtain full certification over all registered units within 24 months.

Transcend’s banking partners have acknowledged the company’s Greening Strategy and have provided margin pricing benefit to notional facilities totalling R395 million. These facilities are structured as green loans and benefit from margin reduction throughout the life of the respective facility. See the “Debt Facilities” section for more detail.

Disposals

The disposals undertaken by Transcend are part of management’s strategy to dispose of properties which value can be better realised through sale rather than rental. Net sales proceeds are used to settle debt and reduce the company’s LTV. Transcend’s portfolio allows for the break-up and sale of individual units to third-party buyers. The sale of these units has assisted the company in generating additional cash and liquidity to support its balance sheet fundamentals and cash management during an uncertain trading environment. Furthermore, the sales process validates the company’s property valuations. As at 31 December 2021, the following five properties are in the process of being disposed of:

<u>Midrand Village</u>

Midrand Village consists of 225 freehold units located in Clayville, Gauteng. The property was acquired as an investment property and registered in the name of Transcend in June 2019. During 2019, management determined better value could be extracted from the units through sale rather than rental. As at 31 December 2021, 219 units have been sold and transferred to third-party buyers with a further 6 offers to purchase (sales agreements) in place on that date, all of which are recognised as non-current assets held-for-sale.

<u>De Velde</u>

De Velde consists of 310 sectional title units located in Somerset West, Western Cape. Like Midrand Village, this property was acquired as an investment property by Transcend, and these units were transferred on 31 July 2019. During 2019, management decided to initially dispose of any vacant units. Subsequently, all units at the property have been marketed for sale and as at 31 December 2021, 161 units have been sold and transferred to buyers, with a further 42 units subject to sales agreements. At the end of December 2021, 65.48% of the total units at De Velde have either been transferred or are subject to sales agreements. Due to the significant number of sales, management has revalued the remaining units in line with selling prices, resulting in a R88.20 million fair value gain. Of the 42 units with sales agreements in place, 35 have been classified as assets held-for-sale. The balance of the unsold units continues to be classified as an investment property as at 31 December 2021.

<u>Birchwood Village</u>

Birchwood Village consists of 360 sectional title units located in Chartwell, Gauteng. This property was acquired as an investment property by Transcend and these units were transferred on 31 August 2019. In 2019, management decided to dispose of any vacant units. Like De Velde, all units have since been marketed to homeowner buyers and as at 31 December 2021, 64 units have been sold and transferred, while 38 units have sales agreements in place. As at 31 December 2021, 102 of the total units at Birchwood have either been transferred or are subject to sales agreements. Due to the significant number of sales, management has revalued the remaining units in line with selling prices, resulting in a R39.97 million fair value gain. Of the 38 units with sales agreements in place, 32 have been classified as assets held-for-sale at the reporting date and valued at their respective selling prices. The balance of the units remains classified as an investment property as at 31 December 2021 and are valued accordingly.

<u>Stone Arch Village</u>

Stone Arch Village consists of 114 sectional title units located in Germiston, Gauteng. This property was acquired as an investment property by Transcend and these units were transferred on Transcend’s initial JSE listing in 2016. In 2021, management decided to dispose of all units in the property. As at 31 December 2021, no properties have transferred but 28 units have sales agreements in place and 16 of those units have been classified as assets held-for-sale at the reporting date and valued at their respective selling prices

Vanguard Village

Vanguard Village consists of 60 sectional title units located in Cape Town, Western Cape. This property was acquired as an investment property by Transcend and these units were transferred on 23 August 2018. In 2021, management decided to dispose of all units in the property. As at 31 December 2021, no properties have transferred but 27 units have sales agreements in place. Due to significant number of sales, management has revalued the remaining units in line with selling prices, resulting in a R6.4 million fair value gain. Of the 27 units with sales agreements in place, 24 have been classified as assets held-for-sale. The balance of the unsold units continues to be classified as an investment property as at 31 December 2021.

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

Note: units are reclassified from investment property to non-current assets held-for-sale only once sales agreements are unconditional and the requirements of IFRS 5 have been satisfied.

Funding

Equity capital raise

Transcend issued 33.04 million new shares at a clean price of R4.61, resulting in a total capital raise of R155.94 million. Capital Raise Proceeds will be deployed in early 2022 to part fund the acquisition of The Block and Stoneleigh.

Debt facilities

In the six months from June 2021, Transcend successfully implemented a more efficient debt structure to attract competitive pricing on new and existing debt facilities. Security was re-structured into two pools based on intended asset use, being the Sale Portfolio and the Rental Portfolio, which stands as collateral for banking facilities. As part of the security re-structure process, Transcend refinanced notional facilities totalling R824.68 million on more favourable terms and pricing. As at 31 December 2021, Transcend's weighted average life of senior facilities was extended to 2.87 years and no facilities expire within the next 12 months.

The following interest-bearing borrowings were in place as at 31 December 2021:

No	Bank	Facility	Notional (R'000)	Base	Margin	Tenor	Expiry	Note
1	SBSA	Facility A, Tranche 1	284 000	3mJ	1.85%	3 Years	31-Jan-23	
2	SBSA	Facility A, Tranche 2	371 500	3mJ	2.10%	5 Years	14-Dec-26	***N1***
3	Absa	Facility E, Tranche 1	147 500	3mJ	1.70%[4]	3 Years	10-Dec-24	***N2***
4	SBSA	Facility C	100 000	Prime	-0.85%	3 Years	30-Aug-24	***N3***
5	SBSA	Facility B	144 221	Prime	-1.00%	2 Years	14-Dec-23	***N4***
6	RMB	Facility D, Tranche 2	132 500	Prime	-1.13%[5]	2 Years	13-Dec-23	***N5***
In Place, not yet drawn								
7	RMB	Facility D, Tranche 1	115 000	3mJ	1.92%[4]	4 Years		***N6***
8	Absa	Facility E, Tranche 2	75 000	Prime	1.00%	3 Years		***N7***

N1: In December 2021, Transcend refinanced expiring Standard Bank ("SBSA") facilities for 5 years, at a rate of 2.10% above 3-month JIBAR ("3mJ").
N2**:** On 10 December 2021, Transcend refinanced an expiring R147.5 million Nedbank facility with Absa Bank ("Absa") for 3 years. Interest is charged at 1.70% above 3mJ.
N3: Facility C was advanced by SBSA to re-finance a term loan of R29.2 million and re-finance R70.76 million of a R93.46 million shareholder loan. Facility C is a RCF which Transcend uses to store excess cash. Interest is charged at Prime less 0.85%.
N4: On 14 December 2021, Transcend refinanced the remaining SBSA 3mJ facilities into a 2 year prime facility. Net sales proceeds derived from the Sale Portfolio are settled into this facility. A portion of net sales proceeds derived from the Sales Pool are shared equally between SBSA and RMB and are applied to facility.

[5] Margin is net of green loan pricing benefit, driven by EDGE certification

N5: Rand Merchant Bank ("RMB") advanced Facility D, Tranche 2, a prime based facility, to re-finance the remaining Nedbank facilities. A portion of net sales proceeds derived from the Sales Pool are shared equally between SBSA and RMB and are applied to this facility.
N6: The acquisition of Stoneleigh and The Block will be funded at a 40% debt ratio. A debt facility totalling R115 million has been signed and is conditional on property transfer and the registration of security.
N7: In December 2021, Transcend arranged for an additional R75 million RCF to be provided by Absa. This facility agreement has been signed but drawdown is conditional on transfer of The Block and Stoneleigh and subsequent registration of security.

All facilities are secured by properties owned by Transcend and valued at R2.34 billion. Facilities 1 to 4 share in security valued at R1.75 billion (the Rental Portfolio). Facilities 5 and 6 are collateralised by the Sale Portfolio and valued at R0.59 billion, which includes non-current assets held for sale. The Block and Stoneleigh will form part of the Rental Portfolio once transferred and facilities number 7 and 8 will share in the Rental Portfolio security.

Transcend's total debt book comprises of interest only facilities where interest is payable quarterly on 3mJ loans and monthly on prime loans.

There are no restrictive funding arrangements in place as at 31 December 2021.

Shareholder's loan
A R93.46 million shareholder loan from Emira Property Fund Limited ("Emira"), owing as at 31 December 2020, was fully repaid in June 2021. Of the R93.46 million, R70.76 million was refinanced by SBSA (Facility C) and the remaining R22.70 million was settled in cash.

Derivative contracts in relation to debt
As at 31 December 2021, total drawn Transcend external bank borrowings were R1.01 billion and notional hedges totalled R0.85 billion, translating to an 84.62% hedge ratio on total drawn debt.

As at 31 December 2021, the following interest rate swaps were in place with Standard Bank and Nedbank:

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 2024	200,000	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. Net sales proceeds are diverted to the reduction of debt, naturally increasing the company's hedge ratio. During the 2021 financial year, management took the decision to unwind interest rate swaps totalling a notional of R180 million, reducing the hedge ratio to 84.62% as at 31 December 2021 (2020: 83.39%).

R71.95 million in unrealised fair value losses on Transcend's interest rate swaps were recorded over a 12-month period in 2020 because of the 325-basis point reduction in the repo rate. Based on market anticipation of the repo rate rising in the short to medium term, Transcend has benefitted from unrealised fair value gains on interest swaps of R52.08 million during 2021. This improvement (R52.08 million) and the R180 million notional unwind (R6.70 million) resulted in an improved market-to-market liability of R26.83 million as at 31 December 2021.

Gearing and interest cover ratio

LTV

Through effective capital and debt management, Transcend has reduced its LTV to 38.24% as at 31 December 2021. Although the calculated LTV is 38.24%, Transcend has chosen to report a normalised LTV of 44.92%. The difference between the two represents the timing difference between receiving the Capital Raise Proceeds and deploying these proceeds to acquire The Block and Stoneleigh. The overall reduction in LTV is explained by the six main drivers outlined below.

Cash

Transcend sets off cash against interest bearing borrowings when calculating LTV. This amendment to the covenant definition was negotiated as part of the 2021 debt refinances. Including cash and calculating a net debt position reduces LTV by 5.63% over 2021. R111.87 million of the R141 million cash balance as at 31 December 2021 relates to cash received but not yet deployed as part of the Capital Raise Proceeds. The remaining R44.07 million raised in December as part of the Capital Raise Proceeds is housed in Transcend's RCF (see RCF below). Further down, the Capital Raise Proceeds are excluded to provide a normalised LTV.

Sales

A portion of the net selling proceeds from units at Birchwood Village, Midrand Village, De Velde, Vanguard Village and Stone Arch Village is applied against debt (reduction of R197.83 million) and results in a reduction in investment property and non-current assets held-for-sale. The combined effect of sales translates to a 2.57% reduction in LTV over the reporting period

Gain to Property

The company's valuation policy is to have at least one-third of its portfolio valued annually at year end by external registered valuers. Accordingly, Transcend's portfolio has been externally revalued at 31 December 2021, except for units in Birchwood Village, Midrand Village, De Velde, Vanguard Village and Stone Arch Village which are currently being disposed of and are revalued to respective selling prices. The total fair value gain for the 2021 reporting period was R110.64 million. In addition, R20.78 million of qualifying spend was capitalised to the property portfolio in 2021. The cumulative increase of R131.42 million represents a 2.50% reduction in LTV over the reporting period.

Market-to-Market ("MtM") on interest rate swaps

The MtM of interest rate swaps have decreased by R58.78 million in the reporting period. R6.71 million relates to unwinding of derivative notional of R180 million. The remaining R52.08 million of the derivative liability reduction relates to unrealised fair value gains from 2021. The total derivative liability reduction of R58.78 million represents a further 2.51% reduction to LTV in 2021.

RCF

Securing a RCF in May 2021 has provided Transcend with the ability to reduce debt on an ad-hoc basis but still preserve a healthy liquidity buffer. At the reporting date, Transcend had undrawn limits of just under R100 million, which lead to a further reduction in LTV of 4.27% over the reporting period. R44.07 million of the reduction in RCF relates to a portion of the Capital Raise Proceeds, the remaining portion is in cash (see Cash above). Further down, the Capital Raise Proceeds are excluded to provide a normalised LTV.

Refinance of the shareholder's loan

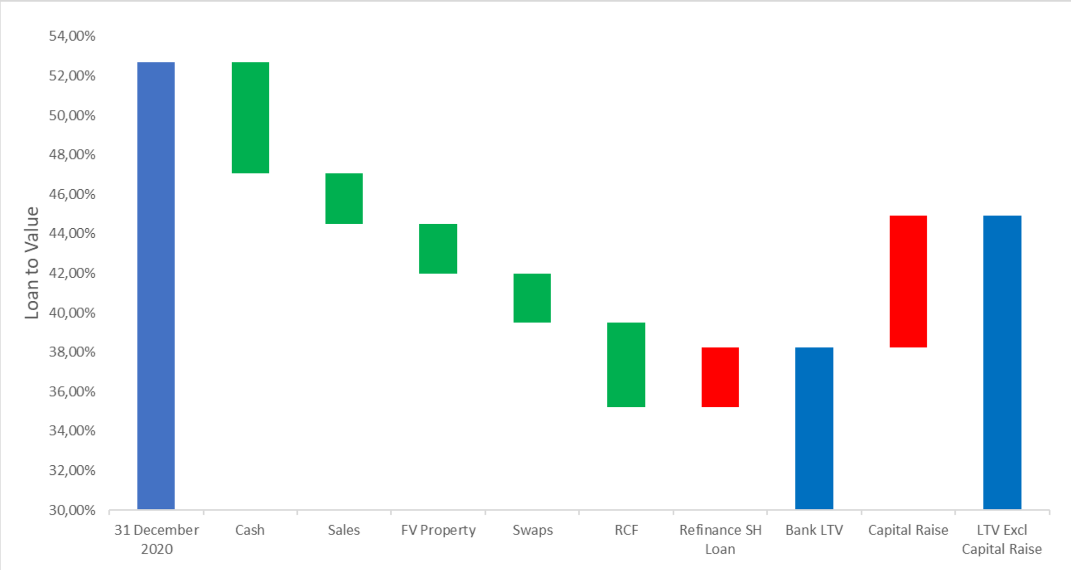
The R93.46 million shareholder's loan from Emira, owing as at 31 December 2020, was fully repaid in June 2021. R70.76 million was refinanced by Standard Bank (Facility C) and the remainder of R22.70 million was settled in cash. The shareholder's loan was subordinated to senior secured debt facilities and therefore previously excluded from the LTV calculation. The attractive benefit of this refinance is evidenced by the improved cost of funding. Interest on the shareholder loan was charged at the 3mJ + 3.95% whereas interest on the refinanced facility (Facility C) is charged at prime less 0.85%. This refinancing has resulted in a 3.04% increase in LTV over the reporting period.

Capital Raise Proceeds

R155.94 million of new equity was raised in December 2021 and fully committed in cash by shareholders prior to 31 December 2021. Transcend's bank LTV calculation includes this cash receipt for reporting purposes, however as these capital proceeds will be deployed to acquire new assets in early 2022, these cash proceeds are removed to provide investors with a normalised LTV at December 2021. Removal of the R155.94 million results in an increase of 6.66% to LTV and a normalised LTV of 44.92%.

Transcend has achieved its goal of reducing LTV to below 45% in the short term and continues to target an LTV range of between 40% and 45%.

LTV bridge from 52.69% (December 2020) to 38.24% (December 2021)



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 1.50 times. This ratio can be defined as the ratio EBITDA to net finance charges. For the measurement period ending 31 December 2021, Transcend's ICR has improved to 1.71 times (2020: 1.64 times).

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. The accounting policies and basis of measurement are consistent with those applied to the financial statements for the year ended 31 December 2020, as published on 15 February 2021.

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 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 2021 that require any additional disclosure or adjustments to the audited annual financial statements.

The audited financial statements were compiled under the supervision of Nicholas Ian Watchorn CA(SA), the Chief Financial Officer ("CFO").

Statement of Financial Position

Figures in R'000	**2021**	**2020**
Assets		
Non-current assets		
Investment properties	2,229,848	2,360,727
Property and equipment	1,013	1,761
Loan receivable	-	14,700
	2,230,861	**2,377,188**
Current assets		
Trade and other receivables	15,197	9,128
Loan receivable	24,496	8,000
Cash and cash equivalents	141,137	72,277
	180,830	**89,405**
Non-current assets held-for-sale and discontinued operation	110,835	146,219
Total assets	**2,522,526**	**2,612,812**
Equity and liabilities		
Equity		
Stated capital	1,163,831	1,020,934
Retained earnings	264,532	125,303
	1,428,363	**1,146,237**
Non-current liabilities		
Interest-bearing borrowings	1,006,867	1,207,091
Derivative liabilities	26,832	85,620
	1,033,699	**1,292,711**
Current liabilities		
Interest-bearing borrowings	2,851	29,239
Loan from shareholders	-	93,461
Trade and other payables	50,483	51,164
	53,334	**173,864**
Liabilities directly associated with non-current assets held-for-sale	7,130	-
Total liabilities	**1,094,163**	**1,466,575**
Total equity and liabilities	**2,522,526**	**2,612,812**

Statement of Profit or Loss and Other Comprehensive Income

Figures in R'000	2021	2020
Continuing operations		
Rental income from investment properties	279,020	297,093
Recoveries of operating costs from tenants	26,303	27,703
Revenue	**305,323**	**324,796**
Property operating expenses	(110,349)	(120,852)
Impairment losses	(8,088)	(10,764)
Other income	4,145	7,000
Net operating income	**191,031**	**200,180**
Other operating expenses	(24,160)	(21,412)
Operating profit	**166,871**	**178,768**
Gain/(loss) on fair value adjustment of properties	103,511	(18,156)
Gain/(loss) on revaluation of interest-rate swaps	52,078	(71,950)
Net finance charges	(102,703)	(122,688)
Finance income	3,902	2,745
Finance costs	(106,605)	(125,433)
Profit/(loss) before taxation	**219,757**	**(34,026)**
Taxation	-	-
Profit/(loss) from continuing operations	**219,757**	**(34,026)**
Discontinued operation		
Loss from discontinued operation net of taxation	-	(8,155)
Total comprehensive income/(loss) for the period	**219,757**	**(42,181)**
Earnings per share		
Basic and diluted earnings/(loss) per share (cents)	166.27	(32.23)
Earnings per share - continuing operations		
Basic and diluted earnings/(loss) per share (cents)	166.27	(25.99)

Statement of Changes in Equity

Figures in R'000	Stated capital	Retained earnings	Total
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**
Balance at 1 January 2021	1,020,934	125,303	1,146,237
Changes in equity			
Profit for the year	-	219,757	219,757
Total comprehensive income	-	219,757	219,757
Issue of share capital	152,506	-	152,506
Dividends	-	(90,137)	(90,137)
Transfer of antedecent dividend	(9,609)	9,609	-
Balance at 31 December 2021	**1,163,831**	**264,532**	**1,428,363**

Statement of Cash Flows

Figures in R'000	2021	2020
Cash flows from operating activities		
Profit/(loss) and total comprehensive income for the year	**219,757**	**(42,181)**
Adjustments for:		
Depreciation of property and equipment	748	780
Finance costs	106,605	125,433
Finance income	(3,902)	(2,745)
Change in fair value of properties	(103,511)	18,157
(Gain)/loss on revaluation of interest rate swaps	(52,078)	71,950
Operating profit before working capital changes	**167,619**	**171,394**
Increase in trade and other receivables	(14,314)	(7,149)
Adjustments for impairment losses	8,245	4,643
(Increase)/decrease in trade and other payables	(681)	6,858
Cash generated by operating activities	**160,869**	**175,746**
Finance income received	2,106	2,757
Finance costs paid	(107,601)	(132,278)
Operating cash flow from discontinued operations	-	15,532
Net cash from operating activities	**55,374**	**61,757**
Cash flows from investing activities		
Proceeds from sales of non-current assets held-for-sale	142,738	110,157
Proceeds from sales of investment property	153,316	13,728
Additions to investment property	(17,996)	(8,985)
Additions to non-current assets held-for-sale	(1,154)	(1,758)
Proceeds from discontinued operations	-	85,916
Net cash generated from investing activities	**276,904**	**199,058**
Cash flows used in financing activities		
Proceeds from share issue	152,506	-
Interest-bearing borrowings received	883,415	3,000
Interest-bearing borrowings repaid	(1,109,031)	(152,898)
Derivative liability settled	(6,710)	(725)
Shareholder loan repaid	(93,461)	(50,000)
Dividends paid	(90,137)	(61,507)
Net cash utilised by financing activities	**(263,418)**	**(262,130)**
Increase in cash and cash equivalents	**68,860**	**(1,315)**
Cash and cash equivalents at beginning of the year	72,277	73,592
Cash and cash equivalents at end of the year	**141,137**	**72,277**

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 2021, 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 2020, 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 2021. At the date of authorisation of the financial statements for the year ended 31 December 2021, the following standards were adopted:

Standard or interpretation	Effective date	Expected impact on financial statements
Covid-19-Related Rent Concessions beyond 30 June 2021 - Amendment to IFRS 16	1 January 2021	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 2021	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

	2021	2020
Reconciliation of basic profit/(loss) earnings to headline earnings/(loss)		
Profit/(loss) for the year attributable to Transcend shareholders	219,757	(42,181)
Change in fair value of properties	(103,511)	37,040
Headline profit/(loss) attributable to Transcend shareholders	**116,246**	**(5,141)**
Actual number of shares in issue ('000)	163,933	130,895
Weighted average number of shares in issue ('000)	132,168	130,895
Basic and diluted earnings/(loss) per share (cents)	166.27	(32.23)
Headline and diluted headline earnings/(loss) per share (cents)	87.95	(3.93)

3. Sectoral split

	2021		2020	
Based on:	GLA (%)	Book value	GLA (%)	Book value
Residential	100	100	100	100

4. Lease expiry profile

	2021		2020	
Based on:	Units (%)	Gross Rental (%)	Units (%)	Gross Rental (%)
Vacancy	8.79	9.79	12.28	13.10
Monthly	91.21	90.21	87.80	86.90
30 June	0.0	0.0	0.00	0.00
31 December	0.0	0.0	0.00	0.00
	100.0	100.0	100.00	100.00

5. Investment properties

Reconciliation of carrying amount		
Opening fair value of investment properties	2,360,727	2,460,174
Fair value adjustment on investment properties	106,440	(15,872)
Capitalised expenditure	17,996	8,984
Disposals	(153,316)	(13,728)
Investment properties transferred to non-current assets held-for-sale	(101,999)	(78,831)
Closing balance	**2,229,848**	**2,360,727**

All of the company's investment properties in the Rental Portfolio 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 Rental Portfolio is valued by capitalising the net contractual income derived from the properties for a period of one year in advance by an applicable capitalisation rate.

The Sale Portfolio is also initially valued by capitalising the net contractual income derived from the properties for a period of one year in advance by an applicable capitalisation rate. When there have been a significant number of sales in a specific property, management fair values all units in the property to their respective unit selling price.

6. Non-current assets held-for-sale

Non-current assets held-for-sale and discontinued operations		
Investment property classified as held-for-sale		
Opening fair value of property assets	146,219	305,571
Investment properties transferred to assets held-for-sale	101,999	78,831
Capitalised costs	1,154	2,825
Disposals *	(142,738)	(219,840)
Fair value adjustment of assets held-for-sale	4,201	(21,168)
Closing balance	**110,835**	**146,219**

* Disposals relate to the sale of units in Midrand Village for R56.90 million (2020: R100.77 million), De Velde for R66.00 million (2020: R9.39 million), Birchwood Village for R20.01 million.

The units classified as properties held-for-sale relate to properties that the Board approved to be recovered through sale rather than rent. 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. These units are all held at gross selling price.

7. Interest-bearing borrowings

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

8. Related parties and related party transactions

Emira increased its shareholding into Transcend to 39.22% (2020: 34.90%) during the current financial year by subscribing for new shares in the December 2021 capital raise. In addition to its shareholding, Emira had also provided a sub-ordinated shareholder's loan to Transcend, which had an amount outstanding of R93.46 million at 31 December 2020. During the 2021 financial year, this loan was fully re-paid.

IHS RF (Pty) Ltd and IHS (SAWHF Interest) (Pty) Ltd have shareholdings of 9.15% and 4.41% respectively (2020: 11.47% and 5.52% respectively).

Transcend is also 4.27% (2020: 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 R10.74 million (2020: R13.23 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 R20.23 million (2020: R21.81 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 two reportable segments based on the entity's strategic business segments, namely, Gauteng and the Western Cape. 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.

Figures in R'000	Gauteng	Western Cape	Reconciliation **	Total continuing operations	Mpumalanga (Discontinued operation)	Total
2021						
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME						
Rental income from investment properties	233,099	45,934	(13)	279,020	-	279,020
Recoveries of operating costs from tenants	23,719	2,584	-	26,303	-	26,303
Revenue	256,818	48,518	(13)	305,323	-	305,323
Property operating expenses	(95,646)	(14,986)	283	(110,349)	-	(110,349)
Impairment losses	(4,596)	(3,597)	105	(8,088)	-	(8,088)
Other property income	3,338	883	(76)	4,145	-	4,145
Net operating income	159,914	30,818	299	191,031	-	191,031
Other operating expenses	(987)	(882)	(22,291)	(24,160)	-	(24,160)
Operating profit	158,927	29,936	(21,992)	166,871	-	166,871
(Loss)/gain on fair value adjustment of properties	16,272	87,239	-	103,511	-	103,511
Unrealised gain/(loss) on revaluation of interest rate swaps	-	-	52,078	52,078	-	52,078
Net finance charges	135	-	(102,838)	(102,703)	-	(102,703)
Finance income	144	-	3,758	3,902	-	3,902
Finance costs	(9)	-	(106,596)	(106,605)	-	(106,605)
Profit/(loss) before taxation	175,334	117,175	(72,752)	219,757	-	219,757
Taxation						
Profit/(loss) and total comprehensive income for the period	175,334	117,175	(72,752)	219,757	-	219,757

Figures in R'000	Gauteng	Western Cape	Reconciliation **	Total continuing operations	Mpumalanga (Discontinued operation)	Total
STATEMENT OF FINANCIAL POSITION						
Investment properties	1,890,459	339,389	-	2,229,848	-	2,229,848
Non-current assets held- for-sale	45,802	65,033	-	110,835	-	110,835
Other assets	1,432	6,073	24,323	31,828	-	31,828
Interest-bearing borrowings	-	-	1,009,718	1,009,718	-	1,009,718

**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.

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/(loss)	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
Gain/(loss) on fair value adjustment of properties	(22,002)	3,846	-	(18,156)	(18,884)	(37,040)
Unrealised 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 represened a single property, Acacia Place. This property was sold on 11 December 2020 and was 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: Parklands, Alpine Mews, De Velde and Vanguard Village
- Mpumalanga: Acacia Place

10. Reconciliation of profit for the year to distributable earnings

Distribution statement

	2021	**2020**
Profit/(loss) for the year attributable to Transcend shareholders (1)	219,757	(42,181)
Calculation of SA REIT Funds From Operations ("FFO")		
Revaluation of properties (2)	(103,511)	37,040
Unrealised loss on interest rate swaps	(52,078)	71,950
Depreciation (3)	748	780
Antecedent dividend available for distribution	9,609	-
FFO	**74,525**	**67,589**
Company specific adjustments		
Acquisition and transaction costs expensed (4)	3,999	2,911
Surplus working capital available for distribution	-	219
Amortised loan raising fee	-	(1,583)
Compensation for loss of vacancy on units held-for-sale (5)	5,591	3,841
Distribution payable to shareholders	**84,115**	**72,977**
Total dividend		
Interim	32,999	15,838
Final	51,116	57,139
Actual number of shares in issue ('000)	163,933	130,895
Dividend per share (cents)	56.39	55.75
Interim	25.21	12.10
Final	31.18	43.65
FFO per share (cents)	45.46	51.64
Full period	**45.46**	**51.64**

(1) Attributable to continuing and discontinued operations.

(2) Revaluation of properties

(3) Total depreciation of R0.75 million (2020: 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.

(4) Acquisition and transaction costs expensed are added back as these expenses are capital in nature.

(5) 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.

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 is 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. As at 31 December 2021, 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 measured 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 2021				
Assets				
Investment properties	2,229,848	-	-	2,229,848
Non-current assets held-for-sale	110,835	-	-	110,835
	2,340,683	**-**	**-**	**2,340,683**
Liabilities				
Derivative liabilities	(26,832)	-	(26,832)	-
	(26,832)	**-**	**(26,832)**	**-**
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)**	**-**

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 appointed independent valuers to value the full Rental Portfolio. Investment properties are valued using a level 3 model. 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 2 December 2021.

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 ("Income Cap Method"). The calculation of the market value of all investment properties in Transcend has been based on the Income Cap 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: Where appropriate, the Sale Portfolio has been revalued to their respective fair values based on the contractual selling prices of the property and/or units and have been reclassified from investment properties to non-current assets held-for-sale when the requirements of IFRS 5 have been satisfied. For all other investment properties, their current use equates to the highest and best use. Investment property therefore includes the full Rental Portfolio valued in accordance with the Income Cap Method and the Sale Portfolio valued with reference to both Income Cap Method and contractual selling prices.

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						
67 on 7th	89,400	8,043	2.00%	5.00%	1.50%	9.00%
Alpine Mews	42,800	4,070	2.00%	7.00%	1.50%	9.50%
Ekhaya Fleurhof	67,700	6,428	2.00%	6.00%	1.50%	9.50%
Ekhaya Jabulani	93,600	8,889	2.00%	6.00%	1.50%	9.50%
Jackalberry Close	109,300	9,562	2.00%	4.00%	1.50%	8.75%
Kensington Place	36,800	3,315	1.50%	4.00%	1.50%	9.00%
Molware	141,400	12,829	2.00%	3.00%	1.50%	9.25%
Parklands	111,500	10,036	2.00%	3.50%	1.50%	9.00%
Protea Glen	59,200	6,064	2.00%	6.50%	1.50%	10.25%
Silverleaf Estate	43,000	3,979	2.00%	5.00%	1.50%	9.25%
Terenure Estate	209,200	19,352	2.00%	5.00%	1.50%	9.25%
Theresa Park Estates	98,900	9,053	2.50%	4.00%	1.50%	9.15%
Tradewinds	50,000	4,501	1.50%	4.00%	1.50%	9.00%
Urban Ridge West	145,300	12,866	2.00%	6.50%	1.50%	9.00%
Urban Ridge East	112,500	9,637	2.00%	6.50%	1.50%	9.00%
Urban Ridge South	134,400	12,095	2.00%	6.00%	1.50%	9.00%
Southgate Ridge	209,050	19,216	2.00%	3.50%	1.50%	9.25%
Total	**1,754,050**	**159,935**	**1.97%**	**5.03%**	**1.50%**	**9.21%**

Note: The table above shows only Rental Portfolio assets.

Expected net operating income

The monthly average rental income ranges from R4 365 to R10 412 (2020: 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 Sale Portfolio, the rental range narrows to R4 318 to R6 779 for the Rental 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 2.0% (2020: 1.5% to 2.5%). 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% and bad debt factor of 1.5% (2020: 3.5% to 7.5% and bad debt factor of 1.5%) 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 8.75% to 10.25% (2020: 8.25% to 10.25%). 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.

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 (89.30% of the total portfolio of 4 012 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 2021	Fair value adjustment/ movement 2021
Expected net operating income		
Increase in income +100bps	15,284	15,284
Decrease in income -100bps	(21,665)	(21,665)
Capitalisation rates		
Increase in cap rates +25bps	(53,072)	(53,072)
Decrease in cap rates -25bps	47,794	47,794
Growth rate		
Increase in rates +100bps	14,499	14,499
Decrease in rates -100bps	(22,522)	(22,522)
Vacancy and bad debt factor*		
Increase in factor +100bps	(22,522)	(22,522)
Decrease in factor -100bps	14,499	14,499

For a detailed listing of the inputs used for valuation detailed per property, refer to note 32 Fair value hierarchy.

* For the purposes of the sensitivity analysis vacancy and bad debt inputs have been aggregated as they are a direct function of tenant behaviour and have a similar effect on revenue. As a valuation input, bad debts are provided at a factor of 1.5% of revenue and the disaggregation of bad debts from the aggregated vacancy and bad debt input would not appear to be material as presented in the sensitivity analysis above.

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

Properties being disposed of and classified as non-current assets held-for-sale include properties within the Sale Portfolio. 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.

Contractual selling price(s) of the properties and/or units is the key assumption used to determine the value of these properties and/or units.

A liability comprising of the key assumptions below is raised on the balance sheet to quantify all costs related to the sale and transfer of non-current assets held-for-sale:

- 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 2021	Fair value effect / movement 2021
Contractual selling price		
Increase in price +500bps	5,040	5,040
Decrease in price -500bps	(5,040)	(5,040)
Costs to sell		
Increase in price +500bps	(357)	(357)
Decrease in price -500bps	357	357

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 2021, 84.62% (2020: 83.39%) of the floating interest rate borrowings have 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 2021, the derivative financial liabilities relating to interest rate swaps were fair valued, resulting in a decrease of R58.79 million (2020: R71.95 million increase) in the liability. R6.71 million of this reduction relates to unwinding of derivative notional of R180 million and this was paid in cash. The remaining R52.08 million of the derivative liability reduction relates to unrealised fair value gains from 2021.

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:

	2021	2020
Dividend per share (cents)	56.39	55.75
Shares in issue (‘000)	163 933	130 895
Net property expense ratio *	31.54%	32.62%
Gross property expense ratio *	37.43%	38.37%
Net total expense ratio *	40.19%	39.83%
Gross total expense ratio *	45.35%	44.96%

* 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.

	2021	2020
Funds From Operations per share	45.46	51.64
Net Asset Value (R'000)	1,325,170	1,161,049
Cost-to-income ratio	46.46%	46.87%
Administrative cost-to-income	7.91%	6.59%
Vacancy rate	10.78%	10.04%
All-in weighted average cost of debt	8.63%	8.80%
Loan-to-value	38.24%	53.54%
Net initial yield	7.21%	7.03%

12. Outlook

2021 Full year results

Transcend is pleased to announce its final results for the full year ended 31 December 2021, from which it declared a full year distribution of 56.39 cents per share (2020: 55.75 cents per share). This represents a 1.15% increase year-on-year and 100% pay-out of distributable earnings, demonstrating the portfolio’s ability to generate positive cash from its net operating activities. The portfolio continues to deliver consistent performance despite difficult and uncertain economic and operating environments and demonstrates the defensive nature of owning value-orientated, quality residential assets.

Economic environment

2021 saw a second, third and fourth wave of COVID-19 which, alongside the devastation of the mid-year riots, stammered any prospect of meaningful growth for the country. Although the latter months of the year did see a resurgence of business activity in South Africa, the discovery of the Omicron variant in late November brought further uncertainty around any sort of economic recovery. Improved business confidence and positive consumer sentiment can be seen in many instances through people returning to their places of work; and along with increased activity, suggests that the economy has started to regain momentum. Although moderate growth is expected for 2022, an all-time high unemployment rate does provide downside risks to this outlook.

A low-interest rate environment has provided some relief over the past 2 years and has also resulted in an added buoyancy to the residential bonded sales market, further emphasizing the flexibility of Transcend’s portfolio. A recent increase in inflation saw the South African Reserve Bank (SARB) approve two 25bps hikes in interest rates during mid-November 2021 and at the end of January 2022, which appears to be the start of the end of South Africa’s low interest rate cycle. Although rates do appear to be on an upward trend, the SARB will however have to remain cognisant of reduced growth and increased business and consumer spending pressures amidst the Pandemic.

Balance sheet strength

Balance sheet strength continues to be a key area of focus for Transcend. Management has ensured ongoing balance sheet stability by reducing the Company’s LTV and maintaining its property valuations by protecting its tenant base and preserving strong cash collections on rentals. Management have continued to focus on four key pillars of the business, namely cash management, property valuations, debt, and sales to ensure balance sheet stability. Management have successfully reduced LTV by 800 basis points to a normalised LTV of 44.92%, further demonstrating the portfolio's ability to rapidly realise value and reduce debt when required.

Property valuations and portfolio growth
Maintaining the portfolio's property values throughout 2021 has been a point of priority for management. Transcend believes its portfolio reflects true value as units are underpinned by a break-up and sales value well in excess of their current carrying value. The 2021 property valuations were completed by external valuers and the Rental Portfolio valuations have remained flat on a like-for-like comparison.

Balance sheet growth and further portfolio diversification saw the successful execution of 2 new acquisition properties located in Gauteng and the Western Cape. Although these transactions are only effective from early 2022, both sales agreements were unconditional at year end. This transaction grows the portfolio by 442 "green" units and the property balance by R253.50 million.

During 2022, the company will continue to focus on its growth aspirations through the acquisition of yield accretive properties.

Debt
During 2021, management undertook a significant refinancing exercise of current debt which was due to mature in early 2022. The exercise has changed the treasury landscape of the business, with a common security pool being established for all lenders and a resultant improved pricing and tenure on all new debt raised. The available debt was oversubscribed by lenders, which confirms the quality of the portfolio and properties.

Unit sales
Management has successfully implemented its strategy of effectively recycling capital in the business through identifying properties in Transcend's portfolio that can be broken up and sold at a premium to the open market. During May 2021, the Board approved the decision to consider other properties to be sold on a similar basis to Midrand Village, De Velde and Birchwood Village. Management has recently launched sales at 2 of these properties, being Vanguard (Cape Town) and Stone Arch (Germiston).

During 2021, the portfolio realised R296.05 million in unit disposals, the proceeds of which have been used to pay down debt which has seen a reduction in LTV to below 45%. From a cash management perspective, it has also provided Transcend with additional balance sheet liquidity. Sales will continue to be a key focus of the team moving into 2022.

Cash management
Management and the Board continue to focus their efforts on good cash management and ensuring sound financial and liquidity positions. The current year's performance has been underpinned by stable occupancies and collections for the portfolio. During the year under 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 93.20% average occupancy on the Rental Portfolio for the reporting period. Collections also remained strong at 97.16%, which has supported the business's current cash position and ability to make a 100% pay-out in its interim distribution.

Portfolio performance
Transcend has been encouraged by the portfolio's good letting performance over the past 12 months at current rental levels. This shows that Transcend's rental offering represents value for best-priced rentals and both attracts and retains quality tenants.

Although Transcend delivered strong results for both 2020 and 2021, issues around consumer affordability and financial pressures of an already stretched tenant base are evident. Top line revenue growth has come under pressure throughout the Pandemic, with little room for rental escalation seen across the portfolio during 2021. This coupled with higher tenant churn and slightly increased arrears in the latter months of the year has required intensive property and asset management by the Transcend team. As a result, management believes that it will be difficult to achieve significant growth in rentals during the short-term. However, despite these rental pressures, the portfolio continues to prove to be defensive and the Company remains successful in executing its strategy of owning well-located, quality properties in high demand areas.

Whilst pressure on top-line revenue growth is expected to remain, expenses (specifically utility costs) continue to rise at rates that are well above inflation. Management and the Board are, however, encouraged by good cost management and significant improvement on operating cost ratios for the year.

Sustainability initiatives

As a business imperative, management will continue to focus its efforts on effective cost management and identify portfolio-wide cost efficiencies to support its growth strategy. The resurgence of load shedding and continued unreliability of electricity supply by ESKOM has contributed negatively to the outlook of the public; as well as compounding the effects of increased utility charges.

Portfolio-level initiatives and resultant cost efficiencies continues to be a critical component of the key performance indicators of the Company. These include the implementation of various sustainability and "green" interventions to offer tenants utility-efficient homes. To date, Transcend has received EDGE Design Certification for over 1,000 units in its portfolio, with a total of 3,136 units due to be certified in the next 2 years.

Forecast guidance:

Transcend remains well positioned, with a clearly defined and focused strategy of owning well-located, quality residential properties in high-demand areas. Its portfolio of just over 4,000 units is well diversified; and has avoided any significant increases in vacancies or rental reversions over the past 2 years. Its portfolio continues to service an affordable "sweet spot" for the R4,500 to R8,000 residential rental market.

Going forward, the Company will remain focused on understanding its tenants' everchanging needs and ensuring that its properties are safe. During the Pandemic, Transcend's properties have proven more resilient than other traditional property types.

Consumers continue to be deeply impacted by a stumbling economy, and the affordability and earnings levels of its retail tenant base remains a primary concern for management. A quality tenant base with strong cash collections on rentals should, however, support consistent portfolio performance leading into 2022. Stable performance, adequately provisioned utility accruals, improved cost management and well managed interest rates risk remain areas of focus but the current environment remains a challenging one for most.

Although the current environment remains unpredictable, the company expects the growth in 2022 DPS to be at least in line with the current year's DPS growth. This continued growth is due to the defensive nature of a well-diversified portfolio, notwithstanding the unit disposals taking place at various properties.

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.

13. Subsequent events

In line with IAS 10 Events After the Reporting Date, the declaration of the final dividend of 56.37 cents per share, as disclosed in Note 15 Payment of final dividend, occurred after the end of the reporting year 31 December 2021, resulting in a non-adjusting event that is not recognised in the financial statements.

Transcend is in the process of acquiring The Block and Stoneleigh for a total purchase price of R253.50 million. These properties will be acquired from International Housing Solutions Fund II and Renico Construction respectively. Both acquisitions are unconditional and are pending transfer and mortgage bond registration which is anticipated to occur in Q1 2022. Acquisition of these properties is a non-adjusting event that is not recognised in the financial statements.

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 gain for the year ended 31 December 2021 of R219.76 million (2020: R42.18 million loss). As of that date, the company had a positive net asset value of R1.43 billion (2020: R1.15 billion). The company's current assets exceed its current liabilities by R231.20 million (2020: R61.76 million). Current assets include R110.84 million of non-current assets held-for-sale and current liabilities include R7.13 million of costs associated with 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 R180.83 million and current liabilities R53.33 million. Current assets still outweigh current liabilities by R127.50 million 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.

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 31.18022 cents per share for the six months ended 31 December 2021. This brings the full year distribution to 56.39022 cents per share (2020: 55.75156 cents per share) for the year ended 31 December 2021. 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 24.94418 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 Monday, 14 February 2022, being the declaration date of the dividend, the company had a total of 163,932,679 shares in issue. The company's tax reference number is 9015377253.

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

Last date to trade cum dividend:	Tuesday, 1 March 2022
Shares trade ex-dividend:	Wednesday, 2 March 2022
Record date:	Friday, 4 March 2022
Payment date:	Monday, 7 March 2022

Share certificates may not be dematerialised or rematerialised between Wednesday, 2 March 2022 and Friday, 4 March 2022, both days inclusive.

In respect of dematerialised shareholders, the dividend will be transferred to CSDP accounts/broker accounts on Monday, 7 March 2022. Certificated shareholders' dividend payments will be deposited on or about Monday, 7 March 2022.

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	Nic Watchorn
Chief Executive Officer	Chief Financial Officer

Johannesburg
14 February 2022

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 – Jeffrey Coleman

Directors: Robert Reinhardt Emslie* (Chairman); Myles Kritzinger (Chief Executive Officer); Vanessa Perfect (Chief Operating Officer); Nicholas Ian Watchorn (Chief Financial 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