

Transcend SENS

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

Unaudited condensed interim financial statements for the six months ended 30 June 2017

Commentary

Nature of business

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

Property portfolio

Transcend's property portfolio consists of 13 properties, comprising 2 472 units, located primarily in Gauteng, as well as Mpumalanga and the Western Cape. The combined gross lettable area ("GLA") is 124 634m² and the properties have a combined value of R1.19 billion, as determined at 30 June 2017.

Results

On 6 September 2017, the board approved a dividend of 29.80875 cents per share for the period ended 30 June 2017.

Period under review

Transcend was incorporated on 8 July 2016, and the comparative reporting period therefore covers 6 months from 1 July 2016 to 31 December 2016. Note that the prior period results presented in the financial statements represent operating activities for 3 months only as Transcend recognised income and expenditure from the effective date of the property acquisitions as of 1 October 2016. The prior period therefore does not represent a true comparative period for the six months ended 30 June 2017.

Preparation

The unaudited condensed interim financial statements were compiled under the supervision of David Peter Lange, the Chief financial officer.

Strategy

Transcend's investment strategy is to acquire and manage income-generating residential properties, with a focus on housing opportunities that are affordable, lifestyle-enhancing and located in high growth urban areas across five provinces in South Africa.

Acquisitions

Transcend has made no further acquisitions during the period under review.

Vacancies and arrears

Vacancies at 30 June 2017 were 4.1% of GLA. Bad debts incurred are 0.95% of rental income and the allowance for potential bad debts is at 1.44% of

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rental income.

Funding

Facility drawn down	Amount R'million	Margin over JIBAR
Tranche 1: Expiry January 2020 (3-year)	274	1.85%
Tranche 2: Expiry January 2022 (5-year)	274	2.35%

Interest rate swaps	Amount R'million	Rate
Tranche 1: Expiry February 2018 (1-year)	137	7.51%
Tranche 2: Expiry February 2020 (3-year)	137	7.62%

The debt balance as at 31 December 2016 of R547 million from various funders was refinanced with a single facility consisting of two tranches from Standard Bank on 31 January 2017. This was done in order to consolidate the debt funding and secure a lower average cost of debt.

The new Standard Bank facility is secured by the investment properties owned by Transcend with a carrying value of R1.19 billion. The 3-year tranche currently attracts a floating rate of three-month JIBAR plus 1.85% and the 5-year tranche attracts a floating rate of three-month JIBAR plus 2.35%. Interest is payable quarterly. Transcend currently has interest rate swaps on these facilities. The 3-year tranche is 50% hedged by an interest rate swap at a fixed rate of 7.51% which expires in February 2018, and the 5-year tranche is 50% hedged by an interest rate swap at a fixed rate of 7.62% which expires in February 2020.

Percentage of debt hedged

It is the board's policy to hedge at least 50% of the exposure to interest rate risk.

Summary of financial performance

	30 June 2017	31 December 2016
Dividend per share (cents)	29.81	5.61
Shares in issue	66 305 662	66 305 662
Net asset value per share (Rand)	R9.93	R9.78
Loan-to-value ratio (1)	43.0%	44.1%
Net property expense ratio (2)	29.6%	28.4%
Gross property expense ratio (2)	34.6%	32.9%
Net total expense ratio (2)	34.9%	40.0%
Gross total expense ratio (2)	39.5%	43.7%

- (1) The loan-to-value ratio is calculated by dividing interest-bearing borrowings (net of cash on hand) by the total value of investment property.
- (2) For the calculation of net ratios, utility recoveries are excluded from rental revenue, whilst gross ratios include utility recoveries in rental revenue.

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Outlook

The Board is confident that Transcend will deliver on its forecast distribution of 62.8 cents per share for the year ended 31 December 2017 as set out in the Listing Prospectus. The forecast statement of comprehensive income, the assumptions on which the forecast has been based, and the independent reporting accountant's report thereon are set out in the Listing Prospectus.

Condensed statement of financial position

	Unaudited 30 June 2017 (R'000)	Audited 31 December 2016 (R'000)
Assets		
Non-current assets	1 189 700	1 189 400
Investment property	1 189 400	1 189 400
Furniture and fittings	300	-
Current assets	48 270	37 305
Trade and other receivables	4 530	13 805
Cash and cash equivalents	43 740	23 500
Total assets	1 237 970	1 226 705
Equity and liabilities		
Shareholders' interest	658 697	648 800
Stated capital	632 276	632 276
Retained earnings	26 421	16 524
Other non-current liabilities	503 943	330 565
Interest-bearing borrowings	503 943	330 565
Current liabilities	75 330	247 340
Short-term portion of interest-bearing borrowings	51 743	216 911
Trade and other payables	21 899	30 429
Derivative financial liability	1 688	-
Total equity and liabilities	1 237 970	1 226 705

Condensed statement of profit or loss and other comprehensive income

	Unaudited 6 months ended 30 June 2017 (R'000)	Audited 6 months ended 31 December 2016 (R'000)
Rental income from investment properties	70 568	33 990
Recoveries of operating costs from tenants	5 439	2 271
Revenue	76 007	36 261
Property operating expenses	(26 316)	(11 940)
Net operating income	49 691	24 321
Other operating expenses	(3 743)	(3 916)
Operating profit	45 948	20 405
Fair value adjustments on investment properties and financial instruments	(1 688)	11 387

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Net finance charges	(26 184)	(15 268)
Finance charges	(26 710)	(15 439)
Finance income	526	171
Profit before taxation	18 076	16 524
Taxation	-	-
Profit and total comprehensive income for the period	18 076	16 524
Basic/diluted earnings per share (cents)	27.26	51.70
Headline/diluted headline earnings per share (cents) (5)	27.26	16.07

Condensed statement of changes in equity

	Stated capital (R'000)	Retained earnings (R'000)	Total equity (R'000)
Balance at 1 July 2016	-	-	-
Transactions with owners			
Issue of shares	639 464	-	639 464
Capitalised listing fees	(7 188)	-	(7 188)
Profit and total comprehensive income for the period	-	16 524	16 524
Audited balance at 1 January 2017	632 276	16 524	648 800
Transactions with owners			
Dividends	-	(8 179)	(8 179)
Profit and total comprehensive income for the period	-	18 076	18 076
Unaudited balance at 30 June 2017	632 276	26 421	658 697

Condensed statement of cash flows

	Unaudited 30 June 2017 (R'000)	Audited 31 December 2016 (R'000)
Net cash generated from operating activities	29 764	23 939
Cash generated from operations	46 608	37 030
Finance charges paid	(17 370)	(13 262)
Finance income received	526	171
Net cash utilised in investing activities	(323)	(13 013)
Transfer and bond costs	-	(13 013)
Acquisition of furniture and fittings	(323)	-
Net cash generated from financing activities	(9 201)	12 574
Repayment of interest-bearing borrowings	(17 817)	(24 425)
Proceeds from share issue	-	36 999
Proceeds from interest-bearing borrowings	16 795	-
Dividend paid	(8 179)	-
Net movement in cash and cash equivalents	20 240	23 500
Cash and cash equivalents at the beginning of the period	23 500	-
Cash and cash equivalents at the end of the period	43 740	23 500

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Notes to the statement of cash flows

	Unaudited 30 June 2017 (R'000)	Audited 31 December 2016 (R'000)
Cash generated from operations		
Profit before tax adjusted for:	18 076	16 524
Fair value adjustments on investment properties and financial instruments	1 688	(11 387)
Depreciation	23	-
Finance charges	26 710	15 439
Finance income	(526)	(171)
Operating profit before working capital changes	45 971	20 404
Working capital changes	637	16 625
Trade and other receivables	9 275	(13 805)
Trade and other payables	(8 638)	30 430
	46 608	37 030

Sectoral split

	2017 (Unaudited)		2016 (Audited)	
Based on:	GLA(%)	Book value	GLA (%)	Book value
Residential	100%	100%	100%	100%

Lease expiry profile (unaudited)

	2017		2016	
Based on:	GLA (%)	Rental revenue	GLA (%)	Rental revenue
Vacancy	4.1%	4.1%	7.0%	6.5%
Monthly	59.7%	59.7%	46.3%	45.7%
30 June 2017	19.0%	19.1%	28.6%	29.5%
31 December 2017	16.1%	16.0%	17.0%	17.3%
31 December 2018	1.1%	1.1%	1.1%	1.0%
	100%	100%	100%	100%

Significant financial statement notes

1. Basis of preparation and accounting policies

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

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The directors are not aware of any matters or circumstances arising subsequent to 30 June 2017 that require any additional disclosure or adjustments to the financial statements.

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

2. Segmental analysis

Segmental information

Transcend has fourteen reportable segments based on the entity's strategic business segments. For each strategic business segment, the entity's executive directors review internal management reports on a monthly basis. All segments are located in South Africa.

Summarised segmental analysis

For the period ended 30 June 2017

R'000	67 on 7th	Acacia Place	Alpine Mews
Revenue	5 290	8 414	2 306
Property operating expenses	(1 762)	(2 903)	(756)
Profit and total comprehensive income for the period	3 527	5 492	1 550
Investment property	91 800	133 800	32 100
Interest-bearing borrowings	-	-	-
	Ekhaya Fleurhof	Ekhaya Jabulani	Jackalberry Close
Revenue	4 203	6 132	6 003
Property operating expenses	(1 158)	(1 943)	(1 777)
Profit and total comprehensive income for the period	3 046	4 174	4 226
Investment property	65 000	88 600	112 400
Interest-bearing borrowings	-	-	-
	Kent Road	Kosmosdal	Parklands
Revenue	2 214	8 244	6 333
Property operating expenses	(736)	(2 865)	(2 636)
Profit and total comprehensive income for the period	1 478	5 373	3 697
Investment property	33 800	135 900	93 500
Interest-bearing borrowings	-	-	-
	Village Seven, Stone Arch	Terenure	Theresa Park

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	Estate	Estate	Estates
Revenue	3 772	14 008	6 035
Property operating expenses	(1 688)	(4 534)	(2 473)
Profit and total comprehensive income for the period	2 084	9 466	3 560
Investment property	54 900	210 000	92 850
Interest-bearing borrowings	-	-	-

	Tradewinds	Entity level	Total
Revenue	3 053	-	76 007
Property operating expenses	(1 085)	-	(26 316)
Profit and total comprehensive income for the period	1 968	(31 565)	18 076
Investment property	44 750	-	1 189 400
Interest-bearing borrowings	-	555 686	555 686

For the period ended 31 December 2016

R'000	67 on 7th	Acacia Place	Alpine Mews
Revenue	2 540	3 401	1 050
Property operating expenses	(679)	(1 409)	(386)
Profit and total comprehensive income for the period	780	(215)	354
Investment property	91 800	133 800	32 100
Interest-bearing borrowings	50 895	99 876	14 273

	Ekhaya Fleurhof	Ekhaya Jabulani	Jackalberry Close
Revenue	2 039	3 020	3 016
Property operating expenses	(479)	(1 188)	(814)
Profit and total comprehensive income for the period	1 979	3 555	1 513
Investment property	65 000	88 600	112 400
Interest-bearing borrowings	31 403	45 471	23 156

	Kent Road	Kosmosdal	Parklands
Revenue	1 079	4 169	3 019
Property operating expenses	(348)	(1 166)	(985)
Profit and total comprehensive income for the period	716	165	5 242
Investment property	33 800	135 900	93 500
Interest-bearing borrowings	14 194	57 354	37 278

	Village Seven, Stone Arch Estate	Therenure Estate	Theresa Park Estates
Revenue	1 866	6 786	2 791
Property operating expenses	(770)	(2 083)	(1 097)

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Profit and total comprehensive income for the period	1 719	8 623	(4 420)
Investment property	54 900	210 000	92 850
Interest-bearing borrowings	26 837	76 862	49 609

	Tradewinds	Entity level	Total
Revenue	1 485	-	36 261
Property operating expenses	(536)	-	(11 940)
Profit and total comprehensive income for the period	258	(3 745)	16 524
Investment property	44 750	-	1 189 400
Interest-bearing borrowings	20 268	-	547 476

3. Investment properties

The investment properties were valued by third party independent valuers as at 31 December 2016 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 fair values of investment properties remain unchanged as at 30 June 2017, as management has assessed that the assumptions underlying the 31 December 2016 valuation have remained unchanged. The net contractual income as at 30 June 2017 is in line with the assumptions used in the valuations, and the capitalisation rates remain unchanged.

4. Financial instrument fair value disclosures

Financial assets and liabilities measured at fair value

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 the inputs used in the valuation techniques as follows:

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

Transfers between level 1, level 2 and level 3

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

Interest rate swaps

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

The fair value is calculated as the present value of the estimated future cash flows. Estimates of future floating-rate cash flows are based on quoted

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swap rates, future prices and interbank borrowing rates. Estimated cash flows are discounted using a yield curve constructed from similar sources which reflects the relevant benchmark interbank rate used by market participants for this purpose when pricing interest rate swaps. The fair value estimate is subject to a credit risk adjustment that reflects the credit risk of the Company and of the counterparty. This is calculated based on credit spreads derived from current credit default swap or bond prices.

As at 30 June 2017, the two derivative financial liabilities relating to the interest rate swaps were fair valued, resulting in an increase of R1 687 967 in the liability and a corresponding fair value movement of R1 687 967 (FY2016: nil) in the condensed statement of profit or loss and other comprehensive income.

The carrying amounts of the debt, trade and other receivables, cash and cash equivalents and trade and other payables reasonably approximate their fair value.

5. Earnings per share

Basic and diluted earnings per share

	2017	2016
Number of shares in issue at period end ('000)	66 306	66 306
Weighted average number of shares in issue ('000)	66 306	31 962

Reconciliation of earnings, headline earnings and distributable earnings

	2017	2016
	R'000	R'000
Profit for the year attributable to equity holders (profit after tax)	18 076	16 524
Less: Change in fair value of investment properties	-	(11 387)
Headline earnings attributable to equity holders	18 076	5 137
Add: Change in fair value of financial instruments	1 688	-
Add: Listing fees expensed	-	1 752
Add: Surplus working capital available for distribution	-	1 290
Clean-out dividend *	-	(4 461)
Amounts available for distribution to shareholders	19 764	3 718
Dividend per share (cents)	29.81	5.61

* The clean-out dividend is a distribution to Transcend shareholders prior to the Transcend listing on the JSE. This dividend is equivalent to the distributable earnings for the period 1 October 2016 to 30 November 2016.

6. Related parties

Relationships

Transcend is externally managed by IHS Asset Management (Pty) Ltd ("IHS AM"), a private company registered and incorporated in accordance with the laws of South Africa and a wholly-owned subsidiary of IHS (RF) (Pty) Ltd. An asset management agreement was entered into by Transcend and IHS AM and became effective 1 October 2016. IHS AM charged Transcend asset management fees

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of R2 237 775 during the period under review in accordance with the asset management agreement.

The property management function of the Company is outsourced on market related terms to IHS Property Management (Pty) Ltd (“IHS PM”), a private company registered and incorporated in accordance with the laws of South Africa. A property management agreement was entered into by Transcend and IHS PM on 16 October 2016. IHS PM charged Transcend property management fees of R5 438 778 during the period under review in accordance with the property management agreement.

7. Payment of dividend

The board has approved and notice is hereby given of an interim dividend of 29.80875 cents per share for the six months ended 30 June 2017.

In accordance with Transcend’s status as a REIT, shareholders are advised that the dividend meets the requirements of a “qualifying distribution” for the purposes of section 25BB of the Income Tax Act, No. 58 of 1962 (“Income Tax Act”). The dividend on the shares will be deemed to be a dividend, for South African tax purposes, in terms of section 25BB of the Income Tax Act.

The dividend received by or accrued to South African tax residents must be included in the gross income of such shareholders and will not be exempt from income tax (in terms of the exclusion to the general dividend exemption, contained in paragraph (aa) of section 10(1)(k)(i) of the Income Tax Act) because it is a dividend distributed by a REIT. This dividend is, however, exempt from dividend withholding tax in the hands of South African tax resident shareholders, provided that the South African resident shareholders provide the following forms to their Central Securities Depository Participant (“CSDP”) or broker, as the case may be, in respect of uncertificated shares, or the Company, in respect of certificated shares:

- a) a declaration that the dividend is exempt from dividends tax; and
- b) a written undertaking to inform the CSDP, broker or the Company, as the case may be, should the circumstances affecting the exemption change or the beneficial owner cease to be the beneficial owner,

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

Dividends received by non-resident shareholders will not be taxable as income and instead will be treated as an ordinary dividend which is exempt from income tax in terms of the general dividend exemption in section 10(1)(k)(i) of the Income Tax Act. On 22 February 2017, the dividends withholding tax rate was increased from 15% to 20% and accordingly, any distribution received by a non-resident from a REIT will be subject to dividend withholding tax at 20%, unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation (“DTA”) between South Africa and the

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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 23.84700 cents per share. A reduced dividend withholding rate in terms of the applicable DTA may only be relied on if the non-resident shareholder has provided the following forms to their CSDP or broker, as the case may be, in respect of uncertificated shares, or the Company, in respect of certificated shares:

- a) a declaration that the dividend is subject to a reduced rate as a result of the application of a DTA; and
- b) a written undertaking to inform their CSDP, broker or the Company, as the case may be, should the circumstances affecting the reduced rate change or the beneficial owner cease to be the beneficial owner,

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

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

Last day to trade cum dividend	Tuesday, 26 September 2017
Share traded ex dividend	Wednesday, 27 September 2017
Record date	Friday, 29 September 2017
Payment date	Monday, 2 October 2017

Share certificates may not be dematerialised or materialised between Wednesday, 27 September 2017 and Friday, 29 September 2017, both days inclusive.

In respect of dematerialised shareholders, the dividend will be transferred to the CSDP/broker accounts on Monday, 2 October 2017. Certificated shareholders' dividend payments will be deposited on or about Monday, 2 October 2017.

Shares in issue at the date of declaration of this dividend: 66 305 662.
Transcend's income tax reference number: 9015377253

By order of the board

Robert Nicolaas Wesselo
Chief Executive Officer

David Peter Lange
Chief Financial Officer

Johannesburg
7 September 2017

Directors: Robert Reinhardt Emslie(1) (Chairperson); Robert Nicolaas Wesselo (Chief executive officer); David Peter Lange (Chief financial officer); Solly Mboweni (Chief operating officer); Cathal Padraig Conaty; Faith Nondumiso Khanyile(1); Michael Simpson Aitken(1); Michael Louis Falcone ((1)Independent non-executive director)

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* There were no changes to the board during this period.

Registered office: 54 Peter Place, Block G, Peter Place Office Park,
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Transfer secretaries: Link Market Services South Africa Proprietary Limited,
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PO Box 4844, Johannesburg, 2000

Designated advisor: Java Capital

Company secretary: Karen Waldeck-Kruger