

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", "the Company" or "the Group")

FINANCIAL INFORMATION RELATING TO THE PROPOSED TRANSACTIONS, POSTING OF CIRCULAR, NOTICE OF GENERAL MEETING AND WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT

1. INTRODUCTION

Transcend shareholders ("**Shareholders**") are referred to the announcement released by Transcend on SENS on Wednesday, 22 September 2021 and the renewal of cautionary announcement released on Thursday, 4 November 2021, relating to the proposed acquisition by Transcend of:

- a rental enterprise located in Bester Road, Unclear, Cape Town, Western Cape consisting of 253 residential sectional title units ("**the Block Units**") in the scheme known as the Block ("**the Block**" or "**the Block Portfolio**") from IHS Fund II SA Rental Trust 2 ("**IHS Fund II**") (a related party to Transcend) for R151.50 million ("**the Block Purchase Consideration**") ("**the Block Transaction**"; and
- 189 residential sectional title units ("**the Stoneleigh Units**") located in North Boundary Road, Helderwyk, Brakpan, Gauteng in the scheme known as Stoneleigh ("**Stoneleigh**" or "**the Stoneleigh Portfolio**") from Renico Construction Proprietary Limited ("**Renico**") for R102.00 million ("**the Stoneleigh Purchase Consideration**") ("**Stoneleigh Transaction**"),

(collectively, "**the Proposed Transactions**").

2. FINANCIAL INFORMATION

2.1. The Block

Set out below is the forecast statement of profit or loss and other comprehensive income for the Block Transaction ("**the Block Forecast**") for the year ending 31 December 2022 ("**the Block Forecast Period**").

The Block Forecast has been prepared on the assumption that transfer of the Block Units will be completed, and rental income in terms of the leases will be received from 1 January 2022.

The Block Forecast, including the assumptions on which it is based and the financial information from which it is prepared, is the responsibility of the directors of Transcend ("**the Directors**"). The Block Forecast has been reviewed and reported on by the Independent Reporting Accountants, KPMG Inc., and their unmodified report thereon is available for inspection at the registered office of Transcend and has been reproduced in the circular to be posted on or about Tuesday, 9 November 2021 (and further explained in paragraph 5 below) ("**Circular**").

The Block Forecast presented in the table below has been prepared in accordance with Transcend's accounting policies and in compliance with International Financial Reporting Standards.

		The Block Forecast for the 12 months ending 31-Dec-22
R'000		
Rental income from investment properties		19,863
Recoveries of operating costs from tenants		4,004
Revenue		23,867

Property operating expenses	-8,466
Impairment losses	-207
Net operating income	15,194
Other operating expenses	-1,128
Operating profit	14,066
Change in fair value of properties	277
Profit before taxation	14,343
Taxation	
Profit and total comprehensive income for the period for the Block Forecast	14,343
Incremental interest cost for the Group	-3,797
Incremental external management fee relating to the Block for the Group	-870
Profit and total comprehensive income for the period for the Block for the Group	9,676

Reconciliation between earnings and distributable income:

	The Block Forecast for the Group for the 12 months ending 31-Dec-22
Profit for the year attributable to Transcend Shareholders for the Block	9,676
Change in fair value of properties	-277
Acquisition and transaction costs expensed	1,128
Antecedent dividend available for distribution	2,138
Incremental Distributable income for the Block Forecast for the Group	12,665

The Block Forecast incorporates the following material assumptions in respect of revenue and expenses:

1. Rental revenue comprises of a rental guarantee received from IHS Fund II which is determined by gross monthly rental income less 3.00% vacancies and 1.00% bad debts ("**Net Monthly Rental**").
2. The Net Monthly Rental in respect of the Block Transaction is underwritten by a rental guarantee for an amount of R19,66 million which approximates the forecast Net Monthly Rental. If the Net Monthly Rental is not achieved, IHS Fund II will reimburse Transcend for the difference, and if the achieved Net Monthly Rental exceeds the guaranteed Net Monthly Rental, then Transcend will reimburse IHS Fund II for the difference. As a consequence, the Net Monthly Rental in respect of the Block for this period is all contracted rental revenue.

Accounting treatment of the rental guarantee

The rental guarantee embedded in the sale agreement of the Block represents a contractual right of Transcend to exchange cash with IHS under conditions that are potentially favourable to Transcend. The value of the rental guarantee changes in response to the underlying rent received by the tenants. There is no initial net investment paid by Transcend to acquire the rental guarantee. It is included as part of the agreement for the sale of the Block from IHS to Transcend.

The rental guarantee meets the definition of a derivative contract in accordance with IFRS 9 Financial Instruments and therefore at initial recognition should be measured at fair value. The rental guarantee is based on the expected rental revenue to be received from tenants, the probability of the rental guarantee being initiated is low and therefore the fair value of the derivative is estimated to be R0 on initial recognition.

Any income received by Transcend in respect of any shortfall between the rental revenue earned and the rental guarantee amount will be recognised as other income in accordance with IFRS 15: Revenue from Contracts and IFRS 16: Leases. The reconciliation of the amount payable or receivable by Transcend will be assessed and settled bi-annually.

3. Rental escalations have been forecasted at an average of 2.50% per annum and have been applied from 1 February

2022.

4. The change in fair value is (R0.28 million) arising due to the Block Purchase Consideration of R151.50 million plus transaction costs of R1.21 million, being at a discount to the fair value of R153.30 million as per the valuation report.

A detailed forecast statement of profit or loss and other comprehensive income for the Block Transaction is set out in Annexure 2 of the Circular.

2.2. Stoneleigh

Set out below is the summarised forecast statement of profit or loss and other comprehensive income for the Stoneleigh Transaction (**"the Stoneleigh Forecast"**) for the year ending 31 December 2022.

The Stoneleigh Forecast has been prepared on the assumption that transfer of the Stoneleigh Units will be completed, that all conditions precedent would have been met, and rental income in terms of the leases will be received from 1 January 2022 (**"Effective Date"**).

The Stoneleigh Forecast, including the assumptions on which they are based and the financial information from which it has been prepared, is the responsibility of the Directors. The Stoneleigh Forecast has not been reviewed or reported on by Independent Reporting Accountants.

The Stoneleigh Forecast presented in the table below has been prepared in accordance with Transcend's accounting policies and in compliance with International Financial Reporting Standards.

	Stoneleigh Forecast for the year ending 31 December 2022 ZAR
R'000	
Rental revenue	13,836
Net property income / net operating profit	11,070
Net operating profit after tax	11,070
Profit available for distribution	11,070

The Stoneleigh Forecast incorporates the following material assumptions in respect of revenue and expenses:

1. 92% of rental revenue is guaranteed for a period of 12 months from the Effective Date. The balance of the revenue is uncontracted.
2. Management's best estimate is that vacancies will stabilise around 4% before transfer and that additional escalations will be achievable on the securing of lease renewals after six months of the Effective Date. Vacancies have been forecasted at 4.00% of gross rental income.
3. Rental escalations have been forecast at an average of 2.00% per annum and have been applied from 1 February 2022.
4. Bad debts have been provided for at a rate of 1.50% of gross rental income.

3. VALUATION

3.1. The Block Valuation:

The Block was valued by Theuns Behrens and Ben Labuschagne of Real Insight, both of whom are registered as independent external valuers in terms of the Property Valuers Profession Act, No 47 of 2000.

The Block has been valued at R153,300,000 as at 1 October 2021.

A detailed valuation report has been prepared in respect of the Block and is available for inspection in terms of paragraph 14 of the Circular. A summary of the valuation report has been included in Annexure 1 of the Circular.

The value of the Block Portfolio in terms of the Independent Valuer's report exceeds the Block Purchase Consideration by c. R1.80 million before the deduction of any capitalised costs, as detailed in paragraph 3.3 of the Circular.

3.2. The Stoneleigh Valuation

The Stoneleigh Purchase Consideration of R102 million is based on an acquisition yield of 10.85%, which the Directors believe is market related. As Stoneleigh is a new development, no independent valuation was performed. The Directors have valued the property at R102 million as at 1 September 2021. The Directors are not registered as independent external valuers in terms of the Property Valuers Profession Act, No 47 of 2000.

4. FUNDING OF THE PROPOSED TRANSACTIONS AND WAIVER OF A MANDATORY OFFER

- 4.1. Both the Block Purchase Consideration and the Stoneleigh Purchase Consideration will be settled in cash and will be funded through the raising of new debt and equity in the ratio of approximately 40% debt and 60% equity, which equity will be raised pursuant to a vendor consideration placing.
- 4.2. As a result, Transcend seeks to place up to 33,065,217 shares ("**VCP Shares**") in the market on behalf of IHS Fund II and Renico Construction by way of an accelerated bookbuild ("**Vendor Consideration Placing**").
- 4.3. Emira Property Fund Limited ("**Emira**"), which currently holds 45,682,283 (34.90%) of Transcend's shares in issue ("**Transcend Shares**"), has provided an irrevocable commitment ("**Emira Irrevocable Commitment**") to subscribe for a minimum of 11,539,761 VCP Shares and up to a maximum of 29,876,258 ("**Emira Subscription Shares**") in terms of the Vendor Consideration Placing. Should all of the Emira Subscription Shares be issued, Emira will control up to a maximum of 75,558,541 Transcend Shares, amounting to 46.08% of the Transcend Shares in issue.
- 4.4. Thus, as a consequence of the issue of the Emira Subscription Shares, and should Emira's interest in the voting rights attached to Transcend Shares exceed 35%, Emira would be obliged to make a mandatory offer to the remaining Transcend Shareholders, unless such mandatory offer is waived in advance in accordance with Regulation 86(4) of the Companies Regulations, 2011 ("**Companies Regulations**").
- 4.5. Emira has no intention of obtaining control of Transcend. Accordingly, and as a condition to the Emira Irrevocable Commitment, independent Transcend Shareholders, being Transcend Shareholders other than Emira, will be requested to waive their right to receive a mandatory offer ("**Waiver**") by way of an ordinary resolution to be proposed at the General Meeting (as defined below).
- 4.6. In accordance with Regulation 86(7) of the Companies Regulations, an independent expert has been appointed to provide a fair and reasonable opinion in relation to the Waiver. The opinion is included in Annexure 7 of the Circular.

5. DISTRIBUTION OF CIRCULAR AND NOTICE OF GENERAL MEETING

Shareholders are advised that the Company has today Tuesday, 9 November 2021, posted a Circular pertaining to the Block Transaction.

Copies of the Circular may be obtained from the Company's website at: <https://transcendproperty.co.za/investor-information/>, from its registered office: 54 Peter Place Block C, Cardiff House, Peter Place Office Park, Bryanston, Johannesburg, 2191 between 09:00 and 16:30 on business days from 9 November 2021, or by prior arrangement via email to sponsor@questco.co.za, at the offices of the Transaction Sponsor.

Notice is hereby given that a general meeting of shareholders will be held by electronic communication in accordance with the provisions of section 63(2) of the Companies Act, 2008 ("**Companies Act**") at 10:00 on Wednesday, 8 December 2021, to consider the resolutions to approve the Block Transaction and the Waiver ("**General Meeting**").

6. SALIENT DATES AND TIMES

The important dates and times in relation to the General Meeting are set out below:

	2021
Record date for determining which Shareholders will be entitled to receive the Circular	Friday, 29 October
Circular and notice of General Meeting posted to Shareholders and announcement on SENS	Tuesday, 9 November
Last day to trade in order to be eligible to participate in and vote at the General Meeting	Tuesday, 30 November
Record date to be eligible to attend and vote at the General Meeting	Friday, 3 December
Last day to lodge forms of proxy for the General Meeting by 10:00	Monday, 6 December
General Meeting held at 10:00	Wednesday, 8 December
Results of the General Meeting released on SENS	Wednesday, 8 December
Results of the General Meeting published in the press	Thursday, 9 December
Proposed date of receipt of the Takeover Regulation Panel's ("TRP") ruling on the Waiver	Thursday, 9 December
Proposed date of release on SENS of the TRP's ruling on the Waiver	Thursday, 9 December
Last day for Shareholders to request a review of the ruling on the Waiver	Friday, 17 December

These dates and times are subject to amendment. Any such amendment will be released on SENS.

7. WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT

Shareholders are referred to the cautionary announcement dated 22 September 2021, and the renewal of the cautionary announcement dated 4 November 2021, and are hereby advised that as the forecast financial information in respect of the Proposed Transactions has been disclosed, the cautionary announcement is hereby withdrawn. Accordingly, Shareholders are no longer required to exercise caution whilst trading in the Shares of Transcend.

8. DIRECTORS RESPONSIBILITY STATEMENT

The board of Directors of Transcend ("**Board**") (including the independent members thereof ("**the Independent Board**")), individually and collectively, accept full responsibility for the accuracy of the information contained in this announcement and certify that, to the best of their knowledge and belief, such information is true and this announcement does not omit any facts that would make any of the information false or misleading or would be likely to affect the importance of any information contained in this announcement.

The Independent Board and the Board have made all reasonable enquiries to ascertain that no facts have been omitted and this announcement contains all information required by law and the Companies Act.

Bryanston
9 November 2021

Corporate Advisor and Bookrunner
Tenurey BSM Proprietary Limited

JSE Sponsor and Transaction Sponsor
Questco Corporate Advisory Proprietary Limited

Legal Advisor
Tonkin Clacey Incorporated

Independent Reporting Accountants and Auditors
KPMG