CALGRO M3 Group

Integrated Annual Report

2019

Building legacies. Changing lives

CONTENTS

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The following can be viewed on the Calgro M3 website www.calgrom3.com:

Sustainability Report 2019	Corporate Governance Report	Annual Financial Statements
Notice of AGM*	King IV Application Register	GRI Index

** Due to regulatory requirements for the new 2019 long-term Executive Share Scheme, the Notice of AGM and relevant documents will be distributed in the last week of May with the Annual General Meeting taking place on 28 June 2019.*

ABOUT THIS REPORT

The report is guided by:

- The King Code of Governance Principles for South Africa ("King IV").
- Global Reporting Initiative ("GRI") G4 Sustainability Reporting Guidelines including, where possible, the Construction and Real Estate Sector Supplement. The content of this report is self-declared at GRI 4. The scope of GRI on sustainability issues and performance is specific to Calgro M3 only and does not refer to any subcontractor, joint venture, associate or partnership unless specifically stated. The GRI Index can be found on the website at www.calgrom3.com.
- The Group is a **GC advanced level** and signatory to the UN Global Compact Principles ("UNGC") which requires companies and their subsidiaries to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption.
- The Companies Act 71 of 2008 (as amended).
- JSE Listings Requirements.

The 2019 report composition comprises

Calgro M3 is committed to be a responsible corporate citizen and in this light has chosen to break down the integrated annual report into the following components, the majority of which are placed electronically on the website for ease of reference and importantly to reduce our carbon footprint by reducing the number of copies printed. The following reports are available on the company's website:

1. Integrated Annual Report
2. Annual Financial Statements:
   - Calgro M3 Group
   - Calgro M3 Holdings Limited
3. Corporate Governance Report
4. Sustainability Report
5. Notice of AGM*
6. King IV Application Register
7. GRI Index

The financial statements are prepared and presented in accordance with International Financial Reporting Standards ("IFRS") and the South African Companies Act 71 of 2008 (as amended).

Scope, boundary and assurance

The collective of all the documents above for the year ended 28 February 2019 provide an overview of the financial, social, environmental and governance performance of Calgro M3 Holdings and its subsidiaries.

The Integrated Annual Reporting format and application of globally recognised governance and sustainability reporting frameworks aim to offer stakeholders a clear view of how Calgro M3's strategy, governance, performance and prospects – in the context of its external environment – create value over the short, medium and long-term.

Calgro M3 has acted in good faith and has made every reasonable effort to ensure the accuracy and completeness of the information contained in this report, including all information that may be defined as "forward-looking statements".

Information presented covers all operating entities of the Group, including all subsidiaries, associate companies and joint ventures, unless otherwise indicated. Please refer to pages 34 to 52 for details on the segmental structure and operating entities. All information, except any changes associated with the adoption of new accounting standards, is presented on the same basis as the Group's 2018 Integrated Annual Report, the measurement methods applied, and time frames used. The information provided covers all material matters relating to business strategy, risks and areas of critical importance to our stakeholders.

We aim to provide all stakeholders with a balanced, clear and transparent understanding of our business and how we create sustainable value. Stakeholders are invited to actively participate by sending questions, comments, concerns or queries to: info@calgrom3.com.

Materiality

Only material information is presented in this report. Materiality has been determined by taking both quantitative and qualitative aspects into account. The determination of materiality necessarily requires prudent judgement to be exercised.

- For financial information, materiality is based on whether the item is of such significance that it could affect financial decisions made by providers of capital to the Group (current and potential). Both the amount and nature of an item is considered.
- For non-financial information and the identification of capitals and stakeholders, materiality is based on whether an item, resource or stakeholder is of such significance that it can prevent the Group from achieving its return on equity target (30% on average per year, compounded over the medium and long-term).

Calgro M3's external communication philosophy is based on achieving full alignment between internal and external financial reporting in respect of both content and format. The only exception is the exclusion of detailed information that might prejudice Calgro M3's competitive position in the market.

Independent assurance

PricewaterhouseCoopers Inc. ("PwC") has been engaged to provide independent assurance on the Group Consolidated Financial Statements. Chantal Marais Roux is the individual registered auditor who undertook the audit. PwC's audit opinion on the annual consolidated financial statements can be found in the Annual Financial Statements section on the website.

* *Due to regulatory requirements for the new 2019 long-term Executive Share Scheme, the Notice of AGM and relevant documents will be distributed in the last week of May with the Annual General Meeting taking place on 28 June 2019.*

ABOUT THIS REPORT (CONTINUED)

Forward-looking statements

Forward-looking statements may be identified by words such as "believe", "anticipate", "expect", "plan", "estimate", "intend", "project", "target", "predict" and "hope". By their nature, forward-looking statements are inherently predictive, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future, involve known and unknown risks, uncertainties and other facts or factors that may cause the actual results, performance or achievements of the Group or its sector to be materially different from any results, performance or achievement expressed or implied by such forward-looking statements.

Forward-looking statements are not guaranteeing future performance and are based on assumptions regarding the Group's present and future business strategies and the environments in which it operates now and in the future. No assurance can be given that forward-looking statements will prove to be correct and undue reliance should not be placed on such statements. Calgro M3 does not undertake to update any forward-looking statements contained in this document and does not assume responsibility for any loss or damage whatsoever and howsoever arising as a result of the reliance by any party thereon.

Board responsibility statement

The integrity of the Integrated Annual Report was overseen by the Board of Directors in conjunction with the Audit and Risk Committee. This was achieved by setting up appropriate teams, structures and processes to undertake the Integrated Annual Reporting process and then performing a thorough review of the resulting document.

The Board of Directors acknowledges its responsibility in ensuring the integrity of the Integrated Annual Report and has evaluated its preparation and presentation accordingly. In the opinion of the Board, this Integrated Annual Report has been prepared to address the material matters pertaining to the long-term sustainability of the Group and fairly presents the integrated performance of the Calgro M3 Group and the impacts thereof.

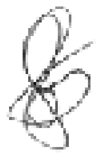
Preparer

The financial statements were internally compiled by M Esterhuizen CA(SA) under the supervision of WA Joubert CA(SA).

Level of assurance

The financial statements have been audited by our external auditors PricewaterhouseCoopers Inc. in accordance with the applicable requirements of the Companies Act 71 of 2008.

Pumla Radebe
Chairperson



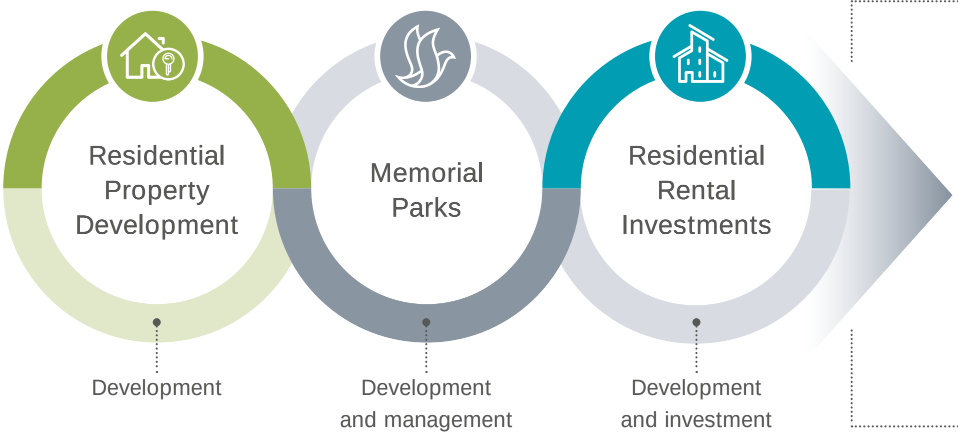
Wikus Lategan
Chief Executive Officer (CEO)

10 May 2019

Queries regarding this Integrated Annual Report or its content should be addressed to:
Wikus Lategan (CEO) and Waldi Joubert (FD)
Tel: 011 300 7500

WHO WE ARE AND WHAT WE DO?

Calgro M3 is a property and property-related investment company specialising in:



Our strategy is to enable the extraction of multiple sources of revenue and profits from businesses and opportunities along the property development value chain, which will result in an improved operating margin blend as well as the creation of annuity income.

1

MESSAGE FROM THE CEO AND FD

Contained in this chapter

We recommend that shareholders and stakeholders read this section as it contains a critical summary of events that impacted the Group during the year under review. It explains the lessons learnt, the mitigating strategies put in place, and provides substantial information on working capital, growth rate requirements and expectations. It also covers the potential value to unlock in the balance sheet and the rationale as to why changes were made to certain projects.

The dissolution of the joint venture with SA Corporate Real Estate, a post-balance sheet event, is also covered, together with the rational for this decision.

This was one of the most challenging years the Group has experienced, and the anticipated future government spend on infrastructure and housing is eagerly awaited.

OVERVIEW OF THE YEAR

IMPACTS ON THE BUSINESS

Scottsdene illegal occupation of units	Site remains closed	Security costs and damages of R27.9 million as a result of adjacent council land illegally occupied Insurance claim pending	15, 21
Fleurhof attempted illegal occupation of units	No units currently illegally occupied	Security costs and damages of R43.1 million Insurance claim pending	15, 21
Fleurhof electrification challenge with city power	Ongoing	Standing time cost R23.3 million	13, 15, 21

La Vie Nouvelle net realisable value write-down of R54.0 million	14, 20	Water shortages resulting from drought in the Western Cape	11, 17
IFRS 15 and IFRS 9 accounting profit impact – R56.2 million	15, 20-22	Private and public sector spending decline	11, 60
Cancellation of the executive share scheme – R43.9 million	60-61	Working capital constraints and controlled slowdown in activity on site	7-9
REIT JV with Afhco (subsidiary of SA Corporate Real Estate Ltd ("SA Corporate")) dissolved	50	Major water and electrical meter registration challenges in Gauteng	11, 23

ATTRIBUTES TO THE BUSINESS

- **Total Group pipeline of R22.2 billion**
- **Cash on hand of R122.6 million**
- **Healthy contribution from memorial parks**

New Memorial Parks acquired and in operation	Durbanville – 1 March 2018 Bloemfontein – 1 June 2018

Acquisition of minority shareholding in Nasrec Memorial Park	22
Memorial Parks revenue R20.9 million (2018: R12.6 million)	14
Level 1 B-BBEE contributor	33
Completion of South Hills and Jabulani developments for the REIT JV	50
Second tranche of international funding received (R109 million)	23
ISO 9001 implementation begun	55
Healthy balance sheet and cash flow	6, 8, 23
Handover taken of first non-Calgro M3 rental units acquired by the Residential Rental Investment business	50-52
New Health, Safety and Environmental ("HSE") plan implemented and preparing for certification	17, 19

Calgro M3 facts

Net debt to equity: 1.09 (maximum covenant 1.50)

Residential units handed over 2 807 (2018: 3 426)

HEPS decreased by 121.1%

Debt Service Cover Ratio ("DSCR") of 1.47 (minimum covenant 1.20)

Remain committed to strategy of 30% ROE and equal profit contribution between businesses (refer to pages 6 – 9 for details

Cash generated from operations: R298 million

Lessons learnt

- The strenuous environment which the Residential Property Development business operates in, resulted in the executive team being involved in day-to-day operations to assist with the resolution of short-term issues, rather than being focused on the longer-term strategic outlook, direction and execution of the Group. The executive team is keenly aware of this and is placing emphasis on rectifying and avoiding this in future.
- More robust planning that provides alternative options, in even the most unexpected circumstances.
- Crisper decision making and execution.
- Greater emphasis on human capital and the impacts thereof.
- Increased reliance on public sector for assistance to resolve challenges on various projects which are outside of our control.
- Continuously reminding ourselves that delivering a superior product offering is just as important as staying ahead of the competition.
- Underlying economic and socio-economic drivers of business partners are extremely important when engaging in longer-term strategic relationships.

STRATEGY

Our strategy is aimed at enabling the extraction of multiple sources of revenue and profits from businesses and opportunities along the property development value chain, which will result in an improved operating margin blend as well as the creation of annuity income.

Medium to long-term strategy

1 The Group is strategically aligned to ensure it remains committed to the targeted return on equity ("ROE") of 30% over the medium to long-term. The commitment is based on the following targets:

	Residential Property Development	Memorial Parks	Residential Rental Investments
Targeted ROE	30%	> 30%	20.5% (annual rental yield plus revaluation growth on geared portfolio)

2 Equal profit contribution from each of the three businesses.

3 Securing an annuity income stream sufficient to cover all operating expenses for the Group.

Areas of focus to achieve our goals

Over the short-term

- Continue focusing on liquidity and cash preservation
- Maximise cash flows and roll-out of the existing project pipeline in a structured and monitored manner across all businesses
- Secure additional pipeline projects that have no immediate impact on the Group and will only commence in four to five years to ensure long-term stability
- Exercise caution before and after national elections

Over the medium-term

- Greater brand awareness and the creation of an aspirational brand
- Continue to make a positive impact on people's lives, every day
- Ensure the Calgro M3 team is passionate about serving the people of South Africa by ***building legacies and changing lives***
- Growing each business to support the committed ROE targets
- Ensure efficient capital allocation (estimated capital requirement per business – based on assumptions outlined below):
  - Residential Property Development – ±R1 billion
  - Memorial Parks – ±R500 million
  - Residential Rental Investments – ±R1.5 billion to R3.5 billion (depending on cash generated from other two businesses)

Capital requirements

To achieve our strategy, the Group will require additional working capital. A summary of the estimated working capital over the medium-term is outlined below. **Please note that this is purely for indicative purposes.** Management performs detailed calculations each year to determine the quantum of future working capital required (12 to 18 months) and may vary from the amounts below.

Residential Property Development

Working capital requirement

Activity	The numbers
Current secured, unescalated pipeline	±R19.1 billion (based on sale of the KwaNobuhle project to a third party)
Working capital currently invested	R2.2 billion
Historic gross profit target range	20% to 25%
Total estimated additional working capital requirements over the next five years	±R1 billion

The above working capital estimation caters for:

- Bulk and link infrastructure requirements on the projects
- Construction, administrative and finance cost requirements

Potential factors that could reduce the additional working capital requirement:

- Availability of infrastructure funding from public sector
- Bulk deals structured with progress payment principles
- Due diligence and option fees for potential new projects

Memorial Parks

Working capital requirement

Activity	The numbers
Current secured, unescalated pipeline	±R2.3 billion
Working capital currently invested	±R200 million
Historic gross profit target range	> 60%
Total estimated additional working capital requirement over the next five years	±R500 million (current project life cycle is estimated at 10 years, but for purposes of this calculation, an estimated 15-year lifespan was used)

Pipeline is expected to grow to R7.7 billion with the above working capital investment

The above working capital estimation caters for:

- New land acquisitions
- Infrastructure and beautification of parks
- Working capital required by new parks for the first two to three years of operations, including the cost of funding during this period

Potential factors that could reduce the additional working capital requirement:

- Land availabilities instead of upfront land purchase
- Utilising land that is already owned and paid for (eg Witpoortjie, Fleurhof and KwaNobuhle) (please see additional details on page 14 for details on how Calgro M3 intends to develop in these areas)
- Reduction of infrastructure cost of parks into smaller phases

Please note that the above is purely for indicative purposes and may change subject to various circumstances.

STRATEGY (CONTINUED)

Residential Rental Investments

Working capital requirement

Activity	The numbers
Capital currently invested	±R400 million
Target ROE of 20.5%	• 10.5% cash yield • 10.0% capital appreciation based on an actual 4% estimated capital growth that equates to 10% on equity based on 60% gearing
Gearing of all properties	60% LTV
Total estimated capital investment over the next five years	±R5 billion
Equity	±R2 billion
Total additional equity required	R1.6 billion (R2 billion less R400 million currently invested)
Direct, limited recourse debt	R3 billion (60% gearing)

The intention is for this to be funded from the Residential Property Development business' cash from operations. Since the cash flow timing on the Residential Property Development business is weighted towards the end, the estimation is that the additional working capital will have to be raised over time, but then repaid/settled as cash becomes available in four to five years' time.

The above working capital estimation caters for:

- New development acquisitions
- Growth of the portfolio to R5 billion assets under management. For the profit from this business to be equal to the Residential Property Development businesses' profit. The total required investment approximates to R4 billion (R10 billion property portfolio, geared at 60%). Growth to this level will only be achieved in the period after year five, once free cash flow from the Property Development business becomes available.

Potential factors that could reduce the additional working capital requirement:

- Faster roll-out of the other businesses resulting in additional free cash flow
- Above expected yields, requiring less capital to be invested

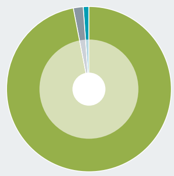
How are we measuring up against these goals?

1 ROE

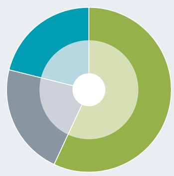
Average ROE for the past eight years	26.39%
2019 ROE	
Residential Property Development	1.01%
Memorial Parks	2.53%
Residential Rental Investments	0.63%

2 Contribution to Group profit

Contribution for the past eight years

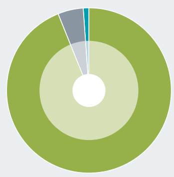


Contribution for the current year (2019)



These % are somewhat misleading (and not indicative of business size yet) due to the Group experiencing a suppressed set of results.

Contribution for the previous year (2018)



3 Securing annuity income[1]

Initially this will be secured primarily through the Residential Rental Investments business that is still in its infancy. Measurement against this goal will commence in the next two to three years, once the business has matured and a meaningful comparison can be made.

These measurements will be based on the current secured pipeline and will exclude any new opportunities being investigated. New initiatives and/or projects will be mainly focused on the private sector to ensure a balance of exposure across markets. The secured pipeline is updated only once agreements are concluded and become unconditional.

The challenges experienced in the Residential Property Development business across the year, despite geographical diversification benefits, highlighted that risks surrounding relationships with municipalities and local communities have increased. Given this, the Group has decided that the property development business will strategically only focus on Gauteng, the Western Cape, KwaZulu-Natal and the Free State in the short to medium-term. This decision means that consideration is being given to the sale of the Eastern Cape, KwaNobuhle project. The returns from this project will be reinvested into new projects in Gauteng with an aim to providing investors with a pipeline visibility of 10 to 15 years.

These strategic goals can only be achieved if the capital base grows annually by capitalising and gearing profits, rather than paying dividends. The optimal application of capital between new opportunities, working capital and risk capital will remain an important strategic decision as capital allocations are made across this horizontal value chain.

Estimated value locked in the balance sheet[2]

Management performed an assessment, contained in the table below, of the additional tangible value locked in the balance sheet. This value will be realised as the pipeline is rolled out alongside any additional property development margin.

	Total number of opportunities	Effective number of opportunities*	Selling price to external party (excluding VAT)[3] Rand	Total Rand
Mid to high-end portfolio: (Serviced and unserviced land)	640	640	373 729	239 186 560
Low to mid-market portfolio: Serviced opportunities[#]	11 029	10 006	119 670	1 197 418 020
Low to mid-market portfolio: Partially serviced and unserviced opportunities	27 314	18 816	56 000	1 053 696 000
Total	**38 983**	**29 461**		**2 490 300 580**
KwaNobuhle development to be sold (book value of R86 million)				175 000 000
Total value in property portfolio			**(A)**	**2 665 300 580**
Construction contracts				
– Infrastructure				315 881 180
– Serviced land				482 052 277
Inventories excluding Memorial Parks				398 577 530
Investment in joint ventures (excluding Residential Rental Investments)				33 212 488
Loans to joint ventures and associates (excluding Residential Rental Investments)				45 506 920
***Less:* Balance sheet cost of property (land) portfolio**			**(B)**	**1 275 230 395**
Management estimated additional value not yet accounted for, locked in the Balance Sheet			**(A)-(B)**	**1 390 070 185**

** Adjusted with % shareholding in JV companies.*
 # Including units currently under construction.
This management valuation has not been reviewed or reported on by the Company's auditors.

The valuation in the 2018 integrated annual report was based on the total number of opportunities and was not adjusted for the Group's effective holding in the joint venture companies.

The valuation table above excludes any retail, commercial or industrial opportunities in excess of 630 000 m^2 across the pipeline, for which all infrastructure costs have been included in the above calculation.

The total portfolio value was determined on the principles that all remaining bulk and link infrastructure is funded by Calgro M3. The increase in value of the unserviced stands approximate the total cost of the infrastructure required. Should the public sector fund the bulk and link infrastructure (as done over many years), the value locked in the balance sheet will increase even further.

1. *The Residential Property Development business remains the primary driver of revenue and profit across the Group. Most references and explanations in this Integrated Annual Report therefore refer to the Residential Property Development business. It is our strategic intent that information and reporting will become more equally balanced between the businesses, as the revenue and profit contributions from the remaining two businesses increase.*
2. *This is applicable only to the Residential Property Development business.*
3. *Selling prices are determined based on "fire-sale" principles. Current sales prices for similar stands less 30% were used for valuation purposes:*
   - *Mid to high-end portfolio – Sold 32-on-Pine development land at R533 898 per stand in 2019 FY;*
   - *Serviced opportunity – Current selling prices in South Hills and Fleurhof starting at R165 652 (excluding VAT) and R176 261 (excluding VAT), respectively; and*
   - *Partially and unserviced opportunities – Bought bulk serviced property from Tongaat Hulett at R80 000 per stand in 2020 FY.*

RISKS AND MITIGATION STRATEGIES

The key risks that could have a material impact on the way we do business are assessed in terms of four categories: Operational, Financial, Reputational and Strategic impact. These risks are analysed, and various mitigating strategies are developed to lower the impact and likelihood of these risks occurring, to acceptable levels within each of the three businesses.

Top six key risk items and the way we mitigate risk

Risk	Level	Mitigation measures implemented	Residential Property Development	Memorial Parks	Residential Rental Investments
Land invasion associated with the housing shortage	High	‣ Enhanced communication on the positive impact of Calgro M3's developments to communities; ‣ More community interaction; ‣ Increased security and surveillance on sites; ‣ Actively assisting public sector to eradicate the housing shortage; ‣ Exposure to fewer areas, enabling better focus on specific needs in the areas we operate in; ‣ Proactive monitoring of possible invasions; ‣ Swift utilisation of judicial system.	✓		✓
Cash flow and liquidity	High	‣ Strict budget control, cash flow monitoring and working capital; ‣ Prioritisation to complete existing projects rather than secure new projects; ‣ Capital allocation between businesses and projects that have different cash flow cycles; ‣ Centralised cash flow control to allow for flexibility across projects. ‣ Unutilised facilities available at all times.	✓	✓	✓
Macro environmental impact	High	Updated economic and affordability data reviewed regularly and considered with every new business or project investment.	✓	✓	✓
B-BBEE compliance	Medium	As a Group, Calgro M3's goal is not to only comply with the relevant law but to go "above and beyond". Empowerment is a standard agenda item at every management meeting and is part of internal culture.	✓	✓	✓
Public vs private sector exposure	Medium	Specific hands-on management by senior management and Group Exco as well as the continuous measurement of exposure to Board approved tolerance levels in accordance with the Risk Tolerance policy.	✓		
Retention of staff	Medium	Only best-in-class senior personnel and management are appointed. The usual mix of short, medium and long-term remuneration is implemented where applicable. Internal culture is extremely important to the Group and continuous human resource projects are implemented.	✓	✓	

High Medium Low

OPERATIONS

Residential Property Development

The Residential Property Development business, which is the largest contributor to Group operations, experienced an extremely tough year, exacerbated by a sluggish economy and political uncertainty. The Group had 10 projects in the ground, contributing to revenue which made the impact of the challenges more manageable.

The variable costing model, adopted across projects, was thoroughly tested during the year where certain sites had to be temporarily closed as a result of the challenges faced. The temporary closure of sites is accompanied by practical execution challenges such as securing a site that is geographically widely spread out. The implementation of the required actions were more complex and costlier than anticipated. Terminating sub-contractor employment in times when employment is scarce, and unemployment is on the rise, was disconcerting and morally challenging to say the least. Even though the scaling back of the variable costing model was not as efficient as management would have liked, lessons were learnt which will ensure that similar actions will be more systematic and efficient in future.

Challenges faced by the development business and mitigation strategies

Challenge/risk experienced	Current status	Mitigating actions taken
Scottsdene and Fleurhof illegal occupation of units	Fleurhof resolved Scottsdene ongoing	Increased security presence and continuous site surveillance Minimal new construction and no new development projects begun in the past six months to reduce the risk of partially completed units occupied or illegally invaded in the build-up to the national elections Community engagement to communicate and entrench the positive impacts new development will have on the area
Fleurhof electrification challenge	Budget made available by National Department of Human Settlements Final agreements being negotiated	Engagement with City Power to resolve dispute Alternative energy sources investigated to assist in electrification of units Engaging with the City of Johannesburg to assist with resolution
Water shortages in Western Cape	Construction activity to resume to normal Strategic decision taken not to increase capacity and remain cautious in the build-up to national election	Slowed down construction to preserve water Use of borehole water only for development (with associated water-use licences) Water saving initiatives implemented throughout design and all construction processes
Public sector spending decline	Ongoing management	Primary focus on private sector Working together with public sector on innovative ways to assist in the eradication of the housing shortfall
Working capital constraints	Strict cash flow management	Variable costing model tested. Some sites temporarily closed to preserve capital Strict budget and cash flow monitoring No new construction begun, with primary focus on completing current units Capital raise started earlier to make provision for any shortfalls
Sluggish sales in private sector	In the process of appointing a new sales and marketing manager to renew sales efforts Implementing changes to marketing and sales strategy	Focus on bulk sale clients Referrals of unsuccessful sales clients to rental units Further enhancing value offering within units Increased marketing and brand awareness to entrench Calgro M3 lifestyle change and value offering to customers
Water and electrical meter administrative challenges in Gauteng	Ongoing	Working closely with council to resolve and accelerate the newly implemented administrative process for water and electrical meters Internal planning adjustment to cater for longer lead times as well as the impact on working capital and handover dates

OPERATIONS (CONTINUED)

Development update

6 028 units were under construction during the period, while 2 807 units (of which 1 542 are subsidised) were handed over.

Year under review	Subsidised	GAP/FLISP	Rental	Affordable	Mid to high	Total
Units handed over	1 542	140	908	121	96	**2 807**
Units under construction	788	1 525	748	107	53	**3 221**
Units sold – construction to commence#	2 050	656	1 059	665	6	**4 436**

 # Units included as part of serviced opportunities.

Total pipeline units

Projects	Total	Completed historically	Trans-ferred/ handed over in 2019 FY	Currently under con-struction	Serviced oppor-tunities	Services under way	Part/ unserviced	Total available stands
Belhar CBD	**4 189**	629	102	1 069	2 389	–	–	**3 458**
Bridge City	**356**	–	–	–		356	–	**356**
Fleurhof	**11 322**	6 277	1 169	1 151	2 131	594	–	**3 876**
Jabulani CBD	**672**	–	288	–	384	–	–	**384**
Jabulani Hostels	**620**	295	–	128	197	–	–	**325**
Jabulani Parcel K	**1 410**	–	–	–	696	–	714	**1 410**
La Vie Nouvelle	**293**	72	96*	21	104	–	–	**125**
Mid to high cluster land	**255**	–	–	–	–	–	255	**255**
Scottsdene	**2 791**	1 826	36	748	181	–	–	**929**
South Hills	**5 845**	341	1 084	45	1 631	566	2 178	**4 420**
Summerset	**32**	–	–	32	–	–	–	**32**
Tanganani Ext 14	**11 624**	–	–	–	–	–	11 624	**11 624**
Umhlanga Hills	**1 376**	–	–	–	–	–	1 376	**1 376**
Vista Park Ext 3	**5 320**	–	–	–	–	–	5 320	**5 320**
Vredehoek	**260**	–	–	–	–	–	260	**260**
Witpoortjie	**5 039**	174	32	27	220	–	4 586	**4 833**
	51 404	9 614	2 807	3 221	7 933	1 516	26 313	**38 983**

** 87 units relate to the sale of the La Vie Nouvelle Lifestyle and Wellness Estate Frail Care Centre.*

Belhar

Reconciliation to previously reported numbers (August 2018)

Total unserviced units – August 2018	**39 596**
32-on-Pine sale	**(59)**
KwaNobuhle potential sale	**(12 964)**
Additional units with new town planning layouts	**241**
	26 814
Total unserviced units – February 2019	**26 313**
Total units transferred to being serviced	**501**
Total units being serviced – August 2018	**1 628**
Servicing started	**501**
	2 129
Total units being serviced – February 2019	**1 516**
Total transferred to serviced	**613**
Total serviced – August 2018	**8 127**
New serviced	**613**
	8 740
Total serviced – February 2019	**7 933**
Units – Construction started	**807**
Total under construction – August 2018	**3 378**
New construction started	**807**
	4 185
Total under construction – February 2019	**3 221**
Total units completed	**964**
Total completed – August 2018	**1 843**
Total new completions	**964**
Total completed – February 2019	**2 807**

Strategic approach

With approximately 8 000 serviced opportunities (refer to table above), the Group remains well positioned to assist Government in the eradication of the housing backlog in times when Governmental budget and cash flow is available.

During the past 12 months, the Group reassessed numerous bulk sale transactions concluded, to ensure all remain sound from a delivery and profitability perspective. The following transactions were subsequently cancelled without incurring penalties:

- Belhar student housing private institution sale – 2 200 beds – R411 million
- Belhar units to Afhco Calgro M3 Consortium – 1 000 rental units – R447.3 million
- Scottsdene units to Afhco Calgro M3 Consortium – 844 units – R317.1 million
- Fleurhof units to Afhco Calgro M3 Consortium – 828 units – R321.9 million
- Fleurhof shopping centre land to the value of R50 million
- Various open market sales to the value of approximately R100 million

New transactions structured pertaining to these cancellations:

Belhar

- Improved student housing transaction – densified to 2 700 beds with similar selling price per bed, ensuring better economies of scale. Final agreements are being negotiated based on an upfront land payment and monthly construction progress draws – R520 million
- Approximately 300 units originally sold to the Afhco Calgro M3 Consortium were sold on the open market for a price 13% higher than the cancelled transaction – R156 million

Scottsdene

- Negotiations on various transactions are ongoing, but hampered by the current land invasion challenges

Fleurhof

- All 828 units originally sold to the Afhco Calgro M3 Consortium have been sold to Gauteng Department of Human Settlements at a similar price. The new transaction includes a deposit, already received by Calgro M3, as well as monthly progress draws – R286 million (zero-rated)
- Negotiation under way on a shopping centre stand for a value of roughly 30% higher than the cancelled transaction. Any transaction will, however, be conditional on final resolution of the electrification challenge

OPERATIONS (CONTINUED)

The dispute surrounding the rehabilitation of the mine dump, located on the Fleurhof property, was concluded during the year and the removal of the dump has commenced. Calgro will not carry any cost for the removal of the dump. The area under the dump will allow for an additional 6 000 to 8 000 units to be developed. The process to determine the exact number of opportunities as well as the timeframes to remove the dump has begun and further information will be provided once clarity is obtained. This property carries no value on the Calgro M3 balance sheet currently and has not been included in the pipeline. All bulk and link infrastructure required on this property will have been installed as part of the original Fleurhof property, making this a large value creator for Calgro M3 once the dump is removed.

The Group disposed of the 32-on-Pine development during the year for R36.2 million (VAT included). The proceeds of the sale were used as a deposit for the acquisition of additional new units by the Residential Rental Investment business from a third-party developer.

The first phase of infrastructure on the Vista Park development commenced and was completed during the year, together with the completion of the La Vie Nouvelle Lifestyle and Wellness Estate frail care centre.

The primary focus of the Residential Property Development business remains the roll-out of the existing pipeline, capitalising on the private sector sales drive and enhancing the product offering, whilst at the same time remaining focused on improving efficiencies. Despite challenges, the Group remains strategically positioned to ensure risk is optimally mitigated and managed in these uncertain times, which creates a solid foundation for future growth.

Health, Safety and the Environment

The implementation of Health, Safety and Environmental ("HSE") systems which align with ISO 14001 and ISO 45001 have progressed well during the year and the Group is readying itself for certification towards the end of the calendar year. The changes brought about by the adoption of this new system had a significant impact on the way HSE matters are dealt with and the advantages of this far outweigh the cost.

The protection of the environment, our staff, contractors and the communities we develop in, will always remain of paramount importance.

Memorial Parks

Sales continued to grow in the Memorial Parks business with the total sales increasing to R20.9 million (2018: R12.6 million) for the year under review mainly due to the increase in sales prices across the product range. An additional payment plan option, where clients can pay over several months (at no interest, or fees) was introduced during the year. These sales and resultant revenue are only recognised once the full purchase price is received from the customer. Accordingly, if a client discontinues payment, all his/her instalments are refunded.

The target of achieving 10% of the overall profitability of the Group for the 2019 financial year was distorted due to the discontinuing of interest capitalisation together with other challenges experienced in the Group.

Despite this, Calgro M3 remains excited about this business based on the prospects of growth over the coming years. Emphasis is being placed on the acceleration of this business as well as the implementation of a strict cost control environment to support this growth. Funeral policy sales will remain a focus area until the correct product, structure and partner is found, as this will accelerate growth further.

The rights for the Witpoortjie Memorial Park (estimated 16 000 graves) was received during the year with the development to commence in the latter part of the 2020 financial year. The development of this memorial park will mark a new era for the Memorial Parks business, as it will be the first park to open on one of our residential development projects. The Group applied for rights at Fleurhof (estimated 22 000 graves) and at KwaNobuhle (estimated 48 000 graves) residential development projects, the outcome of which is being awaited. The granting of these rights will create substantial value for the Group from land that is currently valued and carried at zero on the balance sheet.

The national roll-out plan is advancing rapidly, through the acquisition of the Durbanville Memorial Park in Cape Town, effective 1 March 2018 and the Avalon Memorial Park in Bloemfontein, effective 1 June 2018. The Eastern Cape, Tshwane and KwaZulu-Natal are targeted for expansion, planned for the 2020 and 2021 financial year.

Performance during the year

	Graves sold (quantity)		Total cash received (including VAT) (including graves and other products excluding rental income)	
	2019 FY	**2018 FY**	**2019 FY**	**2018 FY**
Memorial Park				
Nasrec (Gauteng)	**799**	785	**R14.7 million**	R9.0 million
Fourways (Gauteng)	**163**	130	**R7.9 million**	R5.9 million
Durbanville (Western Cape)	**152**	–	**R5.9 million**	–
Bloemfontein (Free State)	**–**	–	**R0.2 million**	–
Enokuthula (Gauteng)	**12**	–	**R0.1 million**	–
Total	**1126**	915	**R28.8 million**	R14.9 million

305 graves sold have not been accounted for yet due to it being sold on deferred payment terms. A total of R2.3 million has been received in cash on these sales.

Residential Rental Investments

In line with the medium to long-term strategy, the Group entered this rental sector to secure annuity revenue for use as operating cash across the Group.

The strategy further aligns in assisting Government to eradicate the housing backlog through the introduction of residential rental units, without exposing the Group to diminished public-sector spend.

Since as early as 2015, Calgro M3 began investigating participating in the residential rental market. This led to partnering with SA Corporate through their subsidiary Afhco, for the first phase of rental investments, which led to the establishment of the Afhco Calgro M3 Consortium (a Real Estate Investment Trust ("REIT")), to service the residential rental market in South Africa. Of the first tranche of 3 852 units, 1 556 units were completed and handed over to the consortium from November 2017.

During the current year, Calgro M3 and SA Corporate came to realise that the fundamental goals and risk appetite of a property development company diversifying into long-term annuity income market, and a pure yield driven REIT, were vastly different. The parties therefore entered discussions to dissolve the joint initiative.

The strategy of this business remains sound, but development-related risk such as the Fleurhof electrification challenge and the Scottsdene illegal invasions mean that Calgro M3 needs to consider a lower initial yield during the rental take-up phase. Furthermore, Calgro M3 can also spend on sustainable developments with less consideration to the immediate impact on the yield, provided the long-term strategy and planning leads to the achievement of yields of an acceptable level over time. Furthermore, Calgro M3 has greater appetite for leverage within its investment portfolio, at levels not suitable to Afhco, where gearing of up to 65% will be pursued, and which will make the long-term capital appreciation on rental portfolios even more attractive over time.

The dissolution of the joint initiative was concluded in March 2019 and will be accounted for in the 2020 financial results. In line with IFRS 15, which the Group adopted in the 2019 financial year, no profits that were recognised on the properties to date, will be reversed. The assets will be carried on balance sheet at a higher value (original cost plus the profits recognised to date) and tested for impairment at each reporting period. When these units are sold to new third-party customers, the revenue and corresponding profit on the sales will be recognised in terms of IFRS 15.

The dissolution saw Afhco retaining 740 units in South Hills and 288 units in Jabulani. Calgro M3 retained 152 freestanding units in South Hills (for rental), 176 multi-storey units in Scottsdene (for rental) and 200 units in Fleurhof, which have been sold to the Gauteng Department of Human Settlements. The remaining undelivered units in Fleurhof, Scottsdene and Belhar will be completed and sold to third-party customers.

The Group remains firmly committed to its strategy of growing this business as a form of risk diversification and a source of annuity income.

In line with this strategy, the first 80 of 480 units were acquired from a third-party developer and is in the process of being tenanted in Ruimsig, Johannesburg were handed over. These units were acquired by a company in which the third-party developer has a 20% equity stake together with Calgro M3 Real Estate, a wholly owned subsidiary of Calgro M3 Holdings, owning the remaining 80%. These units are being managed by a third-party rental management specialist.

The Residential Rental Investments business has a net property income yield target of 10.5%, with a targeted ROE of 20.5% (annual rental yield plus revaluation growth on geared portfolio).

OPERATIONS (CONTINUED)

Key operational challenges

The following areas were considered when identifying key operational challenges that could impact on the execution of our strategy:

- Stakeholder expectations
- Environmental impact
- Industry and sector challenges
- Relevant legal and regulatory requirements
- Macro-economic environment
- Impact on communities we operate in

Key operational challenges	Impact	Response	Cross reference
Housing shortages together with a call for land expropriation without compensation	Illegal land and unit invasion/grabs	Increased security as well as assisting local and provincial government to eradicate the housing shortage Closer working relationships between Calgro M3, security and police in order to avoid illegal invasions Enhancing communication of the Group's positive impact on communities during and after development	15 SR 8-14
Skills shortage	Delivery of products and services	Skills development, subcontractor incubator programme Internal coaching at management level Nurturing relationships with professional companies to grow alongside the Group as well as the mentoring and training of young individuals Human capital management to ensure succession and availability of resources to facilitate Group growth Our target across the Group is to employ 50% of our on-site workforce from local communities with associated training. We are currently achieving in excess of 70% across the Group	SR 29-32
Energy and water shortage	Availability of these critical services impact lifestyle Rising prices have an impact on development costs and client affordability Construction is a heavy user of water in a country where it is scarce	Saving water and energy and reducing carbon footprint, not only after completion but also focused on during construction Use of alternative water and energy solutions supports the future sustainability of developments, in conjunction with our focus towards environmentally friendly designs Finding a balance between the cost of "green products" versus selling price of products	SR 36-41
Health and safety	Ensuring a safe and healthy work environment	Enforce intentional health and safety best practices Ensuring a safe work environment for staff Ensuring safety of all stakeholders/communities on our projects	SR 19
Government assistance	Acceptance of our integrated model and granting the associated regulatory approvals	Through relationship building, delivering on our partnerships with the public sector and proving the effectiveness of integrated development, we build awareness and acceptance	SR 10
Changing lives (community acceptance)	Community acceptance of our various products Strikes and activism can impact project delivery and profitability	Stakeholder engagement and community development (social, skills, and enterprise) Corporate social investment to strengthen ties with the community Actively encouraging community involvement	SR 14, 22-35
Changing social structures of the past	Allowing communities from different social and economic backgrounds to live in harmony with one another in a pleasant environment	Social acceptance of the Calgro M3 products ensure: – Race and class integration – Building role models within society Creation of aspirational products and spaces where communities can live, socialise and relax	SR 22-35

SR: Sustainability Report (available on website www.calgrom3.com

VALUES, VISION AND MISSION

Values

Presence and quality
Calgro M3 is a market leader in the Residential Property Development, Residential Rental Investments and Private Memorial Park industries and provides innovative solutions of exceptional quality across these product ranges.

Our leading brands are entrenched.

Strategic implementation
We are committed to high-quality outcomes across all phases of our projects – from concept to implementation. We strive to continuously raise the bar, applying what we learn on every project to improve the next and build a culture of achievement.

Our environment
We are aware of our impact on the environment and strive to minimise our impact in every business. We invest in eco-friendly energy and water solutions, rehabilitate disturbed land and support long-term environmental stewardship.

Relationships/partnerships
We strive to be engaged and responsive, strengthening our business networks and our relationships with stakeholders.

People
We strive to create a working environment that is non-discriminatory, safe and healthy, respectful of human dignity and fully supportive of human rights. We embrace transformation and diversity. We respect the rights and needs, and actively support the interests of the communities on whom our developments may have a direct or indirect impact.

Securing shareholder wealth through stable growth
We are committed to stable growth and creating value for our business and stakeholders. Management has built solid foundations by successfully implementing growth strategies in various market segments and we continue to expand into new markets.

Vision

To be the company of choice for investing in property and related businesses.

Mission

Calgro M3 is committed to:

- Differentiating its products and services
- Delivering products and services of the highest quality and standards across our diversified property investment portfolio
- Developing beneficial relationships with all stakeholders
- Mentoring and uplifting of staff
- Embracing Broad-Based Black Economic Empowerment
- Realising sustainable returns for shareholders

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG")

We are acutely aware that the value we create for the business is closely tied to the value we create for our stakeholders.

While the bricks and mortar residential developments, rental units and memorial parks we establish are an important measure of our output, the real value lies in creating an environment in which communities can be uplifted to thrive. Our goal is to deliver not only housing and memorial parks, but an environment that empowers and uplifts communities.

- From entry to exit, across all operations, a dynamic working environment is in place which supports future success, well-being and prosperity of communities.
- We invest in the development of shared public spaces and in social, educational, sport and recreational facilities.
- We engage with stakeholders to understand their challenges and needs, incorporating their inputs into our outputs.
- We employ design principles and energy and water solutions that are affordable, eco-friendly and durable.
- We create employment, encourage skills and enterprise development, and support entrepreneurship.
- We take care of the environment, rehabilitating and protecting the natural surrounds, preserving them for future generations.

We do this without taking our eye off the ball in terms of creating business value and ensuring profitability. We are not seduced by opportunity and our risk is carefully managed. Our day-to-day focus is firmly on achieving consistent quality outputs, ensuring excellence in the management of our operations and capital, balancing our risk exposure, and nurturing our relationships with financers, investors and partners.

King IV emphasises the critical role of stakeholders in the governance processes of an organisation. However, at Calgro M3 we have for many years understood that engaging our stakeholders is an imperative to conducting our business in a way that is both sustainable and ethical, and even more importantly, is key to understanding how we better deliver value to all our stakeholders, including those communities we provide homes, rental units and memorial parks for, so that we fulfil our ***"Building legacies. Changing lives"*** promise.

In April 2018, Calgro M3 started implementing a formal HSE management system based on international standards (ISO 45001:2018 and ISO 14001:2015) and in compliance with the Occupational Health and Safety Act 85 of 1993 and its regulations, to ensure that risks/aspects associated with our products, activities, and services are identified and that corrective measures are implemented to ensure continual improvement. Our main priority is to ensure that each site follows a consistent approach.

Throughout the 2019 financial year, Calgro M3 implemented HSE improvement plans that included initiatives such as learning from incidents, change in safety culture and behaviour, leadership commitment and accountability, as developing a safe and responsible safety culture requires strong leadership, effective supervision and engaged workers.

Calgro M3 remains committed to health and safety standards of the highest standards as well as minimising the negative impact of any operations on the environment. The development and enforcement of policies and procedures is being undertaken by the health and safety manager with assistance from the environmental manager.

The Group is extremely proud to announce that the 2019 financial year has been fatality-free.

Calgro M3 is committed to promoting good sustainability practices within the organisation to minimise negative environmental impacts of its activities, thereby creating opportunities to have a positive impact on the environment.

Calgro M3's investment in social initiatives is aligned to its philosophy of community development, upliftment and empowerment. We favour the support of projects in our residential developments, identifying opportunities where we can make a tangible difference, supporting the growth and development of individuals, nurturing vulnerable or needy groups, or strengthening the community.

The Group constructs crèches, clinics, parks and community centres within its developments. In all instances, Calgro M3's investment in chosen initiatives is voluntary, not mandatory, knowing that the creation of these facilities vastly improves lives.

Please refer to the full Sustainability Report on the website: www.calgrom3.com for a comprehensive analysis of all environmental and social impact initiatives.

Please refer to the Remuneration Report for a detailed analysis of executive and non-executive remuneration as well as the remuneration philosophy for the Group. The report is available on our website: www.calgrom3.com or on pages 56 to 65 of this report.

FINANCIAL PERFORMANCE

The financial results for the year were impacted by several operational challenges and transactions, coupled with changes in accounting standards (outlined in the transitional report published on 27 September 2018). This makes a direct comparison between periods extremely difficult.

The most prevalent items to impact the profit before tax include:

- Scottsdene land invasion security cost and damages of R27.9 million
- Fleurhof land invasion security cost and damages of R43.1 million
- Fleurhof electrification standing time cost of R23.3 million
- Cancellation of the Executive Share Scheme R43.9 million and a once-off settlement payment to executives of R25.3 million (refer to the Remuneration Report on page 56)
- IFRS 15 and IFRS 9 impact R56.2 million
- La Vie Nouvelle net realisable value write-down of R54.0 million

Statement of comprehensive income

As detailed in the transitional report, IFRS 15 impacted the method and timing of revenue recognition. Revenue comparison between periods should not be performed as the Group has elected not to restate the comparative information as permitted by IFRS 15. Accordingly, the impact of IFRS 15 was applied using the modified retrospective restatement method allowed under the standard, resulting in an adjustment to the Group's opening retained earnings on 1 March 2018. Comparative information on revenue will not be amended for the impact of IFRS 15.

Please refer to note 2.6 for a revenue comparison between the different accounting standards.

Unrealised profit

The Group's financial performance was impacted by the construction of units for the Afhco Calgro M3 Consortium ("REIT JV"), in which Calgro M3 has a 49% shareholding. This shareholding results in 49% of the development profit (construction and other services) being eliminated on consolidation as an unrealised profit, as prescribed by International Financial Reporting Standards ("IFRS"). This unrealised profit is carried on the balance sheet until realised in future financial years, once the units are completed, tenanted and the portfolio is revalued.

The impact of this unrealised profit on the financial performance necessitated the institution of new metrics to measure operational performance between reporting periods. This further provides an indication of performance which is then consistent between periods. The three pertinent metrics are described as:

Core earnings per share ("Core EPS") – Earnings per share before elimination of unrealised profits from development of units for the REIT JV;

Core headline earnings per share ("Core HEPS") – Headline earnings per share before elimination of unrealised profits from development of units for the REIT JV; and

Core operating profit – Operating profit before elimination of unrealised profits from development of units for the REIT JV.

Disclosure on the above metrics will be discontinued from the 2020 financial year as the REIT JV is dissolved. Should any unrealised profits arise from development of units that Calgro M3 has a shareholding in, the relevant disclosure of unrealised profits will be made as required by the accounting standards, but with no reference to the above three metrics. Unrealised profits are anticipated to disappear with the dissolution of the REIT JV and any current unrealised profits not yet recognised on 28 February 2019, will only be realised once the units developed are sold to third parties.

Revenue decreased by 42.78% to R997.1 million (2018: R1.7 billion) and combined revenue decreased by 44.82% to R1.3 billion (2018: R2.3 billion). If revenue was accounted for under the previous accounting standards, revenue would have been R1.1 billion, resulting in a 38.74% decrease from the R1.7 billion reported in the previous year. Combined revenue (under the previous accounting standards) decreased by 41.78% to R1.4 billion (2018: R2.3 billion) due to the slowdown in operations as outlined in the operational update above.

The main contributing projects to combined revenue were South Hills at 45.21% (2018: 41.88%), Belhar at 11.04% (2018: 13.35%) and Fleurhof at 25.65% (2018: 22.86%).

The gross profit margin of 12.91% for the current year is affected by several extraordinary items, namely:

(1) IFRS 15 impact
(2) Additional security on Fleurhof and Scottsdene
(3) Standing time cost on Fleurhof
(4) Variation order received on Fleurhof
(5) Net realisable value write-down on La Vie Nouvelle

The illegal invasion and occupation of units in Fleurhof and Scottsdene resulted in extensive damage and extraordinary high security costs incurred to secure the units. These costs of approximately R71 million were expensed or provided. Insurance and related claims were submitted to SASRIA and will be accounted for once confirmation or approval on the amount and timing is received. Total claims submitted are:

- Fleurhof – R36.3 million
- Scottsdene – R21.0 million

In response to the negative impact of the adoption of IFRS 15 and IFRS 9 on the net debt/equity ratio, and the impact that this increased ratio has on the Group's future gearing ability, the participants of the Executive Share Incentive Scheme unanimously agreed to forfeit the scheme, despite it being "in the money" to enhance the equity of the Group through the reversal of the share-based payment reserve to retained earnings. The cancellation of the scheme resulted in the remaining expense on the scheme being fast-tracked through profit and loss in the current year, increasing administrative expenses. This acceleration and subsequent cancellation had no impact on equity.

The share-based payment reserve of R118 million (2018: R74.1 million), after the acceleration of the expense was reversed to retained income after the cancellation of the scheme.

In response to the cancellation of the Executive Share Scheme, the Remuneration Committee and the Board resolved to remunerate participants with a once-off payment. The total effective term that participants were remunerated for, ranged from 4.5 years to 10.5 years, with the average being seven years. A total cash amount of R25.3 million was awarded to participants that will be settled after year-end. Please refer to the Remuneration Report on page 56 for more details.

The additional increase in administrative expenses of 41.2% from the previous period is due to an increase in:

- Executive share scheme acceleration – R44 million (2018: 23.8 million)
- Once-off payment to executives for cancellation of long-term scheme – R25.3 million
- New long-term service for staff – R6.2 million
- Increase in staff in the form of additional senior management and health, safety and environmental appointments – R3.2 million

Finance income continued to increase as a result of the increase in debtors and shareholder loan balances (on which interest is being earned) on the South Hills, Witpoortjie and Tanganani projects, which are all accounted for as joint ventures ("JVs") within the Group.

Returns on the REIT JV were earned through finance income instead of in the share of profits from JV classification. This situation arose due to the equity investment being treated as loans, instead of investments in joint ventures and associates. The increase in the loan balance by R149.8 million to R252.1 million (2018: R102.3 million) represents the Group's investment contribution for units that were completed and handed over. The loan balance will be settled through various dissolution transactions. The financial and accounting impact of the dissolution of the REIT JV is anticipated to be minimal.

The share of profit of JVs and associates is mainly attributable to the South Hills JV. This profit recognition was impacted by IFRS 15 within the JV itself. The total equity accounted profit on 1 March 2018 (once IFRS 15 opening balance adjustments were made), was a mere R249 683. Total profit after tax in South Hills at 28 February 2019 was R43.2 million, of which the Group accounted for 42.5%, being R15.1 million after the elimination of unrealised profit.

There were no outstanding debtor balances for South Hills at year-end.

The finance cost expense has increased largely due to increased working capital requirements and the cessation of interest capitalisation on Memorial Parks.

FINANCIAL PERFORMANCE (CONTINUED)

Basic earnings per share ("EPS") decreased by 97.31% to 2.53 cps (2018: 93.91 cps). Similarly, headline earnings per share ("HEPS") decreased by 121.09% to (19.01) cps (2018: 90.12 cps). The new metrics introduced in the prior financial year provide additional information on the Group's performance. Core earnings per share ("Core EPS") decreased by 109.20% to (13.55) cps (February 2018: 147.26 cps), and core headline earnings per share ("Core HEPS") decreased by 124.45% to (35.08) cps (2018: 143.47 cps).

	February 2019 R	February 2018 R
Core earnings per share		
Profit attributable to shareholders	**3 240 735**	120 350 383
Add: (Realised)/unrealised profit (net of tax and share of profits of JVs)	**(20 600 005)**	68 367 999
Core (loss)/profit attributable to owners of parent ("core earnings")	**(17 359 270)**	188 718 382
Weighted average number of ordinary shares in issue	**128 150 069**	128 150 069
Core earnings per share (cents per share)	**(13.55)**	147.26
Core headline earnings per share		
(Loss)/profit used to determine headline earnings per share	**(24 359 642)**	115 490 468
Add: (Realised)/unrealised profit (net of tax and share of profits of JVs)	**(20 600 005)**	68 367 999
Core headline (loss)/profit attributable to owners of parent ("core headline earnings")	**(44 959 647)**	183 858 467
Weighted average number of ordinary shares in issue	**128 150 069**	128 150 069
Core headline earnings per share (cents per share)	**(35.08)**	143.47

The earnings on the Residential Rental Investment Business is split between the interest received and equity accounting due to the shareholder loan not being converted to equity. Please refer to the Segment Report contained in the Financial Statements document placed on the website for details on the profits of each of the three businesses.

Statement of financial position

The increase in investment property, property, plant and equipment, investments (not for profit company/restricted investments), inventories and trade and other payables is due to the acquisition of the Durbanville and Avalon Memorial Parks.

The restricted investment is the cash investment in a fully registered non-profit organisation ("NPO"), specifically created to ensure the in-perpetuity maintenance of the Durbanville Memorial Park. Once the Group has greater clarity on whether this maintenance fund can be utilised for the entire Group, it intends pursuing that avenue.

The Group acquired the remaining shareholding from the minority shareholder in Nasrec Memorial Park (36.5% shareholding) for R63.6 million during the year. R15.9 million was paid and the remaining balance, which carries no interest, will be settled over the next three years in equal annual instalments.

The Group made an additional investment into the Calgro M3 JCO Holdings (Pty) Ltd joint venture of R120 million for the purchase of the rental units in Ruimsig, Johannesburg. This represents the full equity contribution for the Group and no additional funding is required for the purchase of these units.

The loans to joint ventures and associates increased by R168 million and was attributable to the additional funds advanced to the Afhco Calgro M3 Consortium (Pty) Ltd (REIT JV) for the purchase of units. The total loan value at the end of February 2019 was R252.2 million (2018: R102.3 million). This loan account balance was settled as part of the dissolution of the REIT JV after year-end.

Construction contracts balance decreased by R541.9 million to R1.3 billion as a result of the R417.7 million adjustment to the opening balance from the adoption of IFRS 15 together with the completion of other units without starting new construction. Please refer to the transitional report released on 26 September 2018 for more details around the IFRS 15 opening balance adjustment.

Cash balances at year-end decreased by 21.75% to R122.6 million (2018: R156.7 million). Much emphasis is placed on maintaining a continuous healthy cash balance and investment into annuity income-based assets in these uncertain economic times. The dissolution of the REIT JV did not have a negative impact on cash flow. Prior to the dissolution, the Group had R155 million outstanding in deposits received from the REIT JV. After the dissolution, the outstanding debt was R104 million that was converted into a three-year listed instrument on the Group's DMTN programme. The Group issued R273 million of new instruments on the DMTN programme during the year and repaid R193 million. Total instruments maturing in the next 12 months are R157 million and the Group is actively working at refinancing these instruments into new three to five-year instruments.

The share-based payment reserve was re-allocated to retained earnings in the year as a result of the cancellation of the executive share scheme. Please refer to pages 60 to 61 in the Remuneration Report for more details around the cancellation.

The Group secured R109 million as a second tranche of international funding in June 2018, from Societe De Promotion Et De Participation Pour La Coopération Economique ("Proparco") S.A, a subsidiary of Agence Française De Développement ("AFD"). The balance of the facility was received after certain international environmental and health and safety compliance requirements were successfully achieved.

The net debt to equity ratio increased to 1.09 (2018: 0.70 (restated)). The increase is mainly attributable to the changes in opening retained earnings because of the IFRS 15 and IFRS 9 adoption, which is detailed in the transitional report and the financial results section of this report.

The Group's weighted average cost of debt is currently at 11.55%.

	February 2019	February 2018
Net debt to equity ratio[1]	**1.09**	0.70[3]
Covenant (maximum)	**1.5**	1.5
Debt service cover ratio ("DSCR")[2]	**1.47**	1.57
Covenant (minimum)	**1.2**	1.2

1. Please refer to the Annual Financial Statements for definitions and calculation.
2. Please refer to the Annual Financial Statements for definitions and calculation.
3. Restated.

Cash flow

Although cash flow from operations was positive by R298 million (2018: (206 million)), it continued to be placed under pressure during the period due to challenges experienced on various projects. These challenges include the slower than anticipated handover of units to the REIT JV, the temporary slowdown/closure of the Fleurhof and Scottsdene projects and the associated security and repair costs required due to illegal invasions together with substantial delays in installing and registering water and electrical meters on units in Gauteng.

Cash flow was placed under further pressure through the ongoing investment into annuity-based assets.

Most of the cash will be utilised as working capital for the Residential Property Development business with a sizeable amount set aside as buffer if instruments maturing in the next six months on the DMTN programme have to be repaid.

The dissolution of the REIT JV will not place additional pressure on cash resources. Any monies owing to Afhco after the dissolution will be settled through the issue of an instrument on the Group's DMTN programme and a small portion in cash.


Witpoortjie

THE YEAR AHEAD

The focus for the year ahead is, foremost, to stabilise the Residential Property Development business so that a consistent stream of cash flow and profits can be attained. Emphasis will be placed on cash flow extraction from the various projects. Focus will be dedicated to revenue and profit generation in a consistent manner. Should construction activity not improve to acceptable levels after the 2019 National Elections, further cost-cutting measures will be implemented.

Memorial Parks and the Residential Rental Investments businesses are identified as areas with a particularly high growth opportunity. Management is determined to accelerate the growth within these businesses.

Our objective remains that the three businesses contribute evenly to profitability in the medium to long-term as well as the extraction of multiple sources of revenue and profits from business and opportunities along the turnkey property development value chain, which will lead to an improved operating margin blend and the creation of annuity income.

The optimal application of capital between new opportunities, working capital and risk capital will remain an important strategic decision. Management places emphasis on cash flow generation from projects, as well as the preservation thereof for future use. The Group is cautious in the current uncertain environment and careful consideration will be given to what the best use of cash is on each project to ensure sustainable long-term return and value for shareholders.

The Group is currently only investigating some memorial parks in Tshwane and KwaZulu-Natal, one new residential development project as well as some potential properties to be acquired and developed for the Residential Rental Investment business. The internal focus is on rolling out the current projects in the pipeline. Alternative uses for some of the mid to high-end land parcels are being investigated to improve the cash generation cycle, with no anticipated losses from these possible conversions expected.

Transformation goes beyond compliance with legislation and regulation. Our goal is to create a truly transformed organisation where people are empowered to fulfil their purpose. We acknowledge that the broader transformation of society cannot take place unless large companies such as Calgro M3 play a major role therein. We are proud to be a level 1 B-BBEE contributor.

THANK YOU!

We would like to thank our management team for their commitment, drive and dedication throughout the year. This dedication enabled us to weather the storm of an exceptionally challenging year. We would also like to thank the Board members for their guidance and wisdom throughout the year.

Thank you to all employees, clients and stakeholders. Your continued support has enabled us to grow and mature. To our shareholders, we trust that the positioning in this letter and across the report will show our utmost commitment to ensuring a sustainable and diversified business.

Lastly, we would like to thank our families for their support and understanding. Without your support, it would not have been possible.

We hereby confirm that we remain fully committed to *Building legacies and Changing lives*.

Wikus Lategan
Chief Executive Officer

Waldi Joubert
Financial Director

10 May 2019

2

THE OPERATIONS OF CALGRO M3

Contained in this chapter

Calgro M3 is a market leader in the Residential Property Development, Memorial Parks and venturing into Residential Rental Investments providing innovative, cost efficient solutions of the highest quality across these product ranges.

These three businesses are operated along the same turnkey business model that allows for the extraction of value from multiple areas while mitigating risk throughout the process.

An analysis of the various markets served, the operations and the risks associated with these businesses is discussed in this section.

BUSINESS MODEL SUPPORTED BY A TURNKEY APPROACH AND OUR CAPITALS

Establishing sustainable business practices begins by recognising the broader responsibilities as an organisation within society and the communities we operate in. We will continue to strive to enhance our product offering, setting new standards for sustainable Residential Property Development, Residential Rental Investments and Memorial Parks that will benefit all stakeholders along the value chain. *Building legacies. Changing Lives.*

Our turnkey approach affords Calgro M3 the opportunity to manage each aspect of the Residential Property Development, Residential Rental Investments and Memorial Parks businesses and in this way, by trapping margin within the business, while ensuring high-quality end products and services at an affordable price to the customer. We provide end-to-end solutions, through specialist business units and dedicated management that focus on high growth, niche markets and ensure a deep pool of expertise.

Inputs

Financial capital
- Retain profit for growth
- Debt funding
- Subsidies
- Centralised treasury

Intellectual capital
- In-house professional teams
- In-house market specialists
- Brands and intellectual property

Human capital
- Community development and involvement
- Skills development, training and education
- Culture of making a difference
- Values and ethics

Social and relationship capital
- Stakeholder relationships
- Health and safety
- Skills and enterprise development
- Project focused CSI initiatives

Manufactured capital
- Land development
- Construction capacity
- Infrastructure development

Natural capital
- Land
- Water conservation
- Energy source

Value creation

34-43, 48-52

Residential Property Development and Rental Investments

Value is created through a turnkey approach to capitals

Professional services

1. Identify project and due diligence
2. Secure land
3. Township establishment
4. Infrastructure
5. Marketing and sales
6. Transfer to end user
7. Construction
8. Handover to clients

Memorial Parks

Value is created through operating in strategic locations and providing superior customer service

- Land identified/acquisition
- Landscaping and infrastructure development
- Marketing and sales
- Holistic burial and remembrance services
- Maintenance

43-47

Outputs

Products
- Residential Property Development
- Residential Rental Investments
- Memorial Parks

In order to ensure
- Housing delivery
- Assisting Government in service delivery
- Providing a dignified final resting place
- Community development
- Client satisfaction
- *Building legacies, changing lives*

Outcomes

- **Active B-BBEE measurement and application (level 1 contributor)**
- **Various bulk sale transactions re-negotiated**
- **R183.3 million paid in salaries and wages (refer to page 67)**
- **Zero fatalities**
- **Memorial Parks and Residential Property Development pipeline R21.4 billion**
- **3 221 opportunities under construction**
- **7 933 serviced opportunities**
- **Diversified products offering**
- **Annuity income**
- **R392 million invested in rental properties**

PROJECT PIPELINE

Residential Property Development pipeline

Project	Municipality	Region – Province	Government/Private	Progress update	Number of units/ remaining units	Anticipated turnover for remaining units (Rand)
Belhar CBD	City of Cape Town	Western Cape	Private	Under development	3 458	1 344 851 303
Bridge City	eThekwini	KwaZulu-Natal	Private	Ready to commence	356	132 665 217
Fleurhof	City of Joburg	Gauteng	Private/Public	Under development	3 876	2 074 124 990
Jabulani CBD	City of Joburg	Gauteng	Private/Public	Under development	384	127 192 982
Jabulani Hostels	City of Joburg	Gauteng	Private/Public	Under development	325	114 098 683
Jabulani Parcel K	City of Joburg	Gauteng	Private/Public	Under development	1 410	418 171 954
KwaNobuhle	Nelson Mandela Bay Metropolitan Council	Eastern Cape	Private/Public	To be sold to third party (excluding Memorial Park)	–	175 000 000
La Vie Nouvelle	City of Joburg	Gauteng	Private	Under development	125	274 122 807
Mid to High Cluster land	City of Joburg	Gauteng	Private	Awaiting town planning approval	255	445 131 579
Scottsdene	City of Cape Town	Western Cape	Private/Public	Under development	929	360 505 127
South Hills	City of Joburg	Gauteng	Private/Public	Under development	4 420	2 989 848 829
Summerset	City of Joburg	Gauteng	Private	Completed – awaiting transfer	32	19 283 478
Tanganani Ext 14	City of Joburg	Gauteng	Private/Public	Awaiting town planning approval	11 624	4 321 326 661
Umhlanga Hills	eThekwini	KwaZulu-Natal	Private	Awaiting town planning approval	1 376	1 207 758 678
Vista Park Ext 3	Mangaung Metropolitan Council	Free State	Private/Public	Infrastructure under development	5 320	2 443 361 467
Vredehoek	City of Cape Town	Western Cape	Private	Commencement towards beginning of 2020	260	729 824 561
Witpoortjie	City of Joburg	Gauteng	Private/Public	Under development	4 833	1 888 129 646
Total					**38 983**	**19 065 397 962**

Memorial Parks pipeline

Project	Region – City	Region – Province	Number of units	Anticipated project turnover (Rand)
Nasrec	City of Joburg	Gauteng	41 649	1 036 429 719
Fourways	City of Joburg	Gauteng	13 043	429 162 685
Enokuthula	Springs	Gauteng	12 103	140 600 435
Avalon	Bloemfontein	Free State	46 422	503 958 333
Durbanville	City of Cape Town	Western Cape	20 490	203 746 122
Total			**133 707**	**2 313 897 294**

Witpoortjie, Fleurhof and KwaNobuhle Memorial Parks are not included above due to the product offering still being finalised.

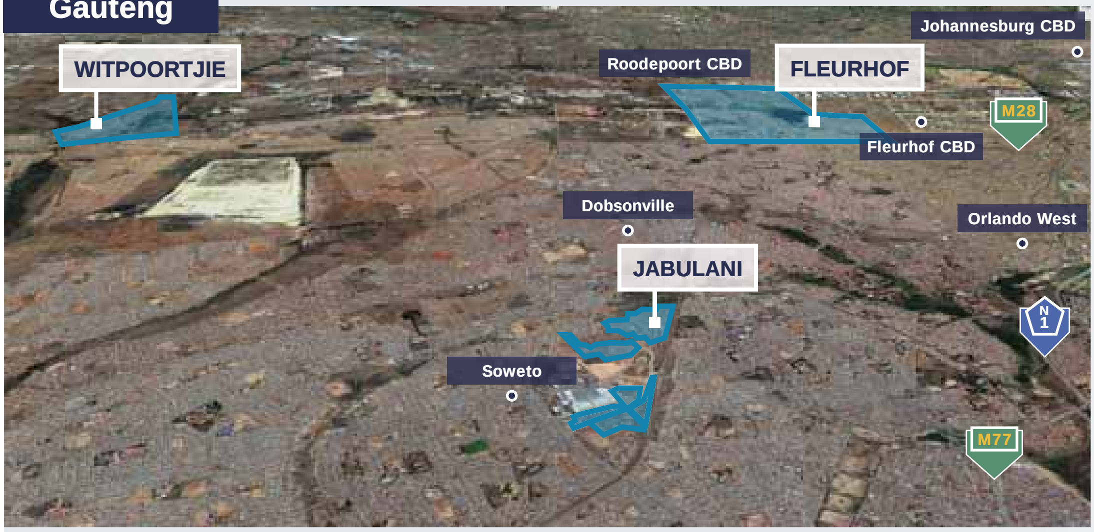
Residential Rental Investments pipeline

Project	Region – City	Region – Province	Number of units	Anticipated project turnover (Rand)
South Hills	City of Joburg	Gauteng	152	163 551 707
Belhar CBD	City of Cape Town	Western Cape	300	134 190 000
Scottsdene	City of Cape Town	Western Cape	176	66 128 086
Ruimsig	City of Joburg	Gauteng	480	420 200 000
Total			**1 108**	**784 069 793**

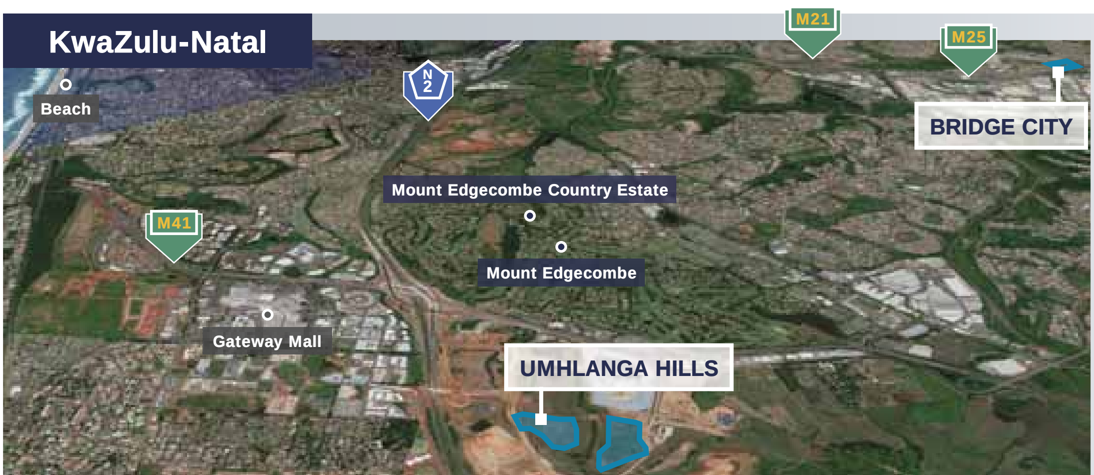
PROJECT LOCATIONS

Illustrations on the locations of some projects in the pipeline

Gauteng



KwaZulu-Natal



Cape Town

Free State

FIVE-YEAR FINANCIAL REVIEW

	2019	2018	2017	2016	2015
Group income statement					
Revenue	**997 064 528**	1 742 602 162	1 554 679 657	1 204 063 379	932 204 729
Gross profit	**128 690 047**	270 089 275	334 162 888	251 546 652	174 871 192
Gross profit %	**12.91%**	15.50%	21.49%	20.89%	18.76%
Operating (loss)/profit	**(28 904 065)**	149 925 996	228 964 661	160 166 678	83 801 167
Share of profit of joint ventures and associates – net of tax	**14 188 053**	9 560 505	6 269 280	67 233 693	86 826 674
(Loss)/profit before tax	**(24 076 699)**	171 755 639	233 309 325	239 274 839	168 149 043
Basic earnings per share	**2.53**	93.91	133.06	152.77	114.65
Headline earnings per share	**(19.01)**	90.12	133.08	138.96	109.69
Net asset value per share	**629.41**	911.18	798.35	645.00	455.30
Tangible net asset value per share	**504.81**	786.59	673.73	519.87	423.06
Group balance sheet					
Inventories	**568 498 000**	554 397 497	595 989 480	453 093 324	498 089 210
Construction contracts	**1 279 072 872**	1 820 973 990	1 383 647 602	910 736 977	198 211 436
Net cash position	**122 632 997**	156 722 935	240 765 157	80 070 805	130 565 085
Retained income	**690 054 102**	977 014 965	846 079 473	676 923 496	482 747 300
Borrowings	**969 195 006**	889 596 522	571 645 578	538 463 465	492 131 943
Trade and other payables	**896 279 099**	814 883 831	847 661 692	342 786 896	221 637 558
Group cash flows					
Cash generated from/(utilised in) operations	**298 290 313**	(205 838 542)	292 068 464	101 798 886	148 294 416
Tax refunded/(paid)	**8 604 779**	(1 478 278)	(7 444 473)	(16 878 792)	(20 380 552)
Net cash generated from/(utilised in) operating activities	**202 083 075**	(276 377 195)	238 183 518	35 511 467	79 176 947
Net cash invested in investing activities	**(298 160 560)**	(129 532 596)	(116 890 703)	(140 533 629)	(25 576 428)
Net cash from financing activities	**61 987 547**	321 867 569	39 401 537	54 527 882	14 071 983
Net (decrease)/increase in cash and cash	**(34 089 938)**	(84 042 222)	160 694 352	(50 494 281)	67 672 502
Cash and cash equivalents at the beginning of the year	**156 722 935**	240 765 157	80 070 805	130 565 085	62 892 583
Cash and cash equivalents and bank overdraft	**122 632 997**	156 722 935	240 765 157	80 070 804	130 565 085
Financial ratios					
Return on average shareholders' funds	**0.33%**	14.56%	25.53%	32.52%	33.73%
Return on net assets	**0.15%**	10.35%	16.63%	23.57%	25.17%
Return on net tangible assets	**0.19%**	11.98%	19.71%	29.24%	27.08%
Current ratio	**1.33**	1.75	1.79	2.00	1.45
Market capitalisation at year end – ordinary shares	**R1 121 313 104**	R1 591 623 857	R2 332 331 256	R2 313 220 000	R1 689 159 000

TOP EMPOWERMENT WINNER 2019

Calgro M3 was named the top empowered company in the infrastructure sector at the 18th Annual Top Empowerment Companies Awards. This category recognises gender-strong organisations involved in the innovative, sustainable and efficient enhancement of infrastructure development.

BDO Verification Services (Pty) Ltd

Broad-Based Black Economic Empowerment

Verification Certificate

CALGRO M3 HOLDINGS LTD

BDO

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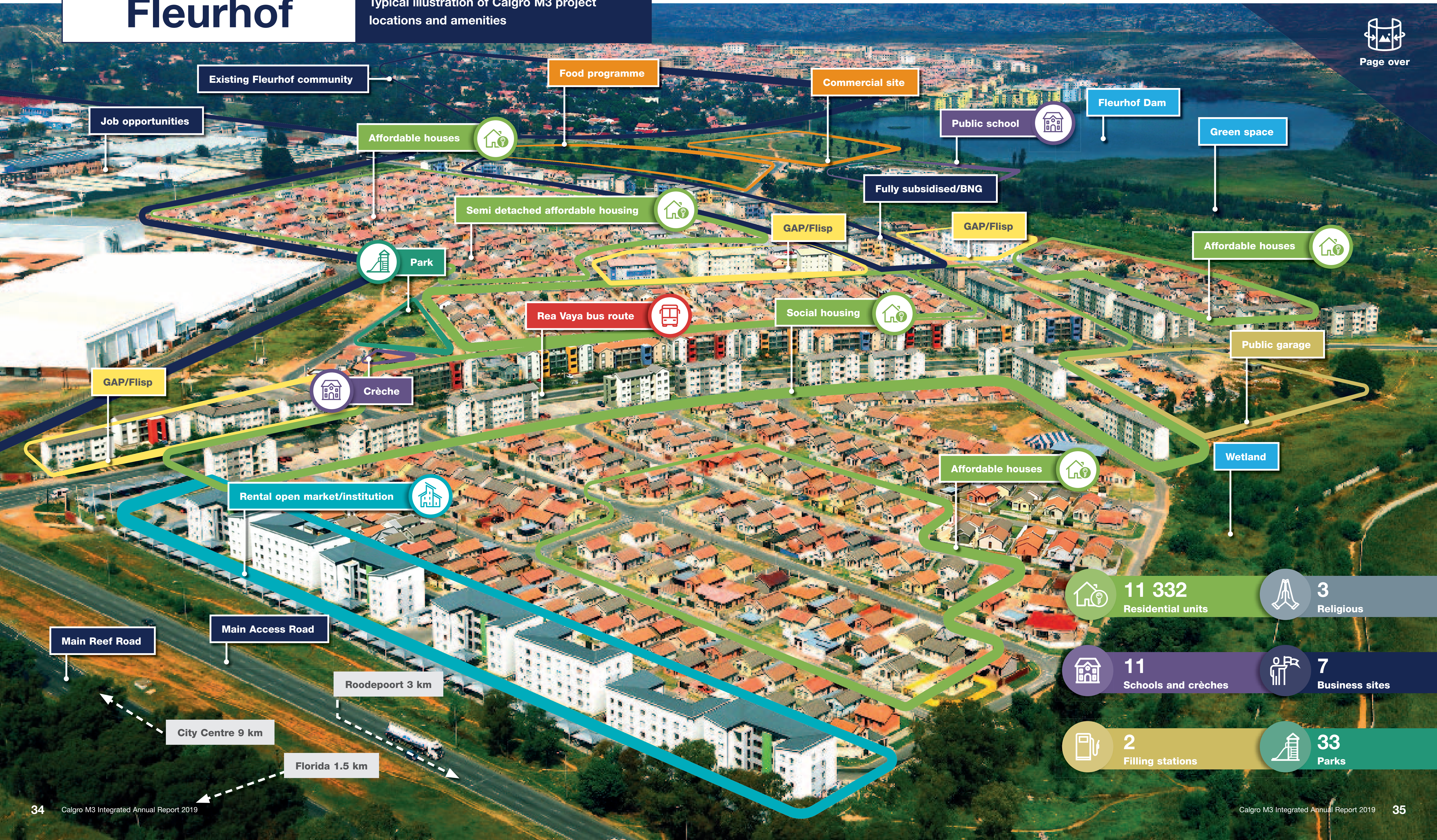
RESIDENTIAL PROPERTY DEVELOPMENT

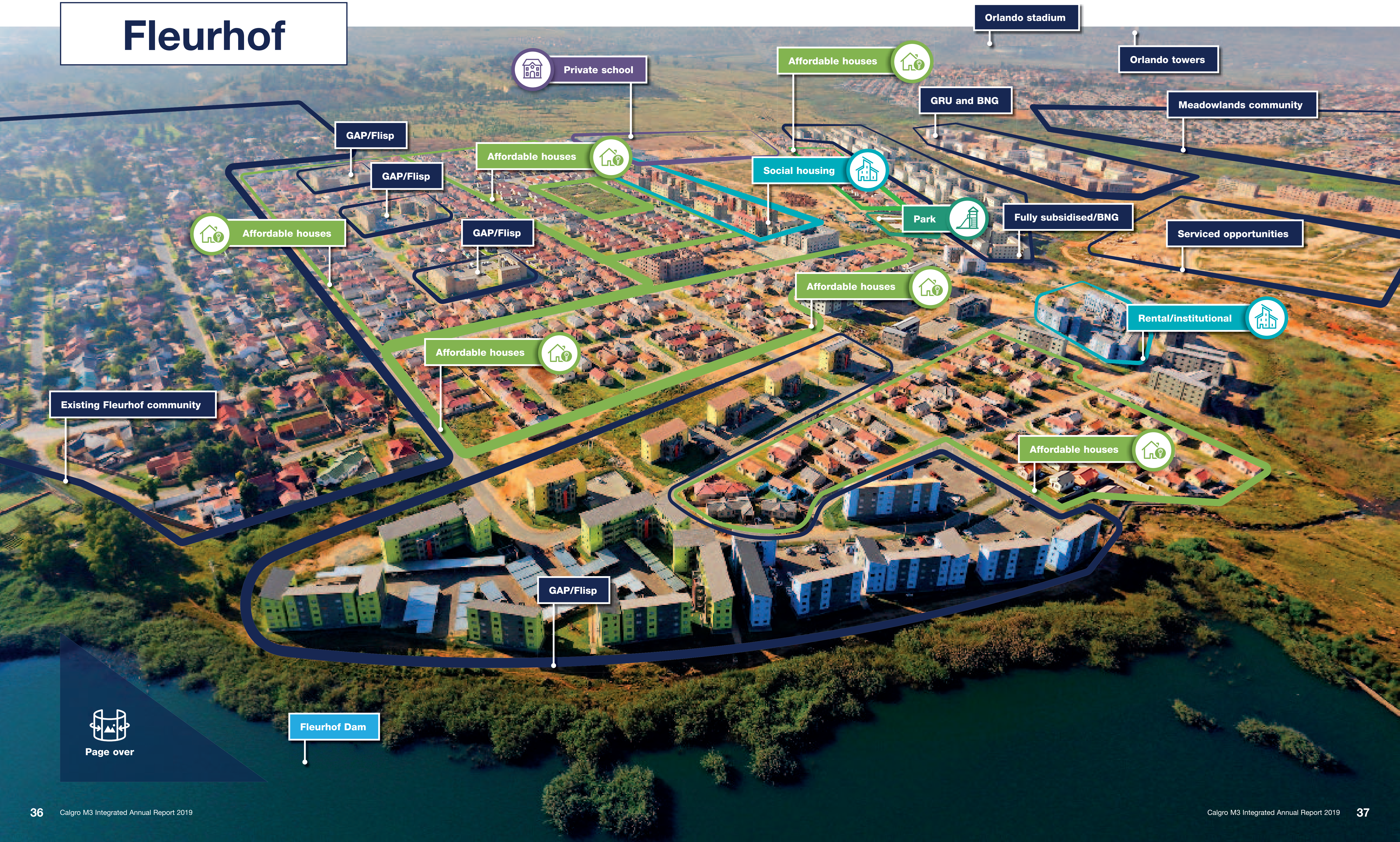
Fleurhof

Typical illustration of Calgro M3 project locations and amenities



RESIDENTIAL PROPERTY DEVELOPMENT (CONTINUED)

Fleurhof



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RESIDENTIAL PROPERTY DEVELOPMENT (CONTINUED)

Calgro M3 provides homes, not merely houses, in a constant drive to change lives and provide South Africans with an asset and a lifestyle to support economic dignity.

The Calgro M3 Residential Property Development operational model hinges on three key elements:

- Key professional services retained in-house;
- Internal marketing capacity; and
- Centralised procurement together with a variable costing model for the internal construction division.

The above functions are implemented in an endeavour to provide a practical and cost-effective turnkey solution. To enhance this cost-effective solution even further, ongoing consideration is focused on flexibility across all lines of business. The model is further assisted by dedicated enterprise development, on-site training and the use of more than 50% local labour on sites. Through the delivery of quality affordable products, Calgro M3 remains a preferred development partner for the private and public sector, maximising value creation for shareholders. A hands-on flexible business approach provides the framework for the Group's strategy, facilitating a swift response to market demand and providing the Group with the ability to cater for the changing needs of clients and development partners.

The Group focuses not only on infrastructure, construction of homes and the physical environment – it assists in building communities by providing people with the tools to prosper.

Highlights and challenges

Please refer to the CEO and FD report on page 11 for a detailed analysis of highlights and challenges experienced by the Residential Property Development business in the 2019 financial year.

Outlook

- Increased focus on rolling out existing pipeline;
- Remaining flexible in exposure to public and private sector;
- Realising various retail, commercial and industrial sites on developments;
- Decreased exposure while political uncertainty is elevated;
- The property development business will strategically focus on Gauteng, Western Cape, KwaZulu-Natal and the Free State in the short to medium-term; and
- Securing additional pipeline projects that have no immediate impact on the Group and will only come on stream in four to five years to ensure longer-term stability as well as providing investors with 10 to 15 years pipeline visibility.

Calgro M3's Residential Property Development business operates mainly within a sector of the market where there is a dire shortage of housing. This is in line with the Constitution of South Africa which provides a right to shelter for all. In 1994 the Government endeavoured to eradicate the housing backlog based on a housing code that was aimed at providing housing to previously disadvantaged South Africans.

Other than unemployment, for which no coherent or politically feasible solution is offered, the struggle for housing is the biggest crisis facing the poor in South Africa.

The Residential Property Development model is based on the principles of seamlessly bridging the gap between the subsidised, social housing, rental, GAP (Grassroots Affordable People's) housing and the affordable market segments by providing housing, schooling and communal facilities to all levels of income earners within one integrated community.

The integrated development model offers homeowners a platform to improve their lifestyle and living conditions in line with their financial capability, whilst remaining in the same community. This enhances social upliftment within communities by retaining role models in those communities, resulting in more sustainable, integrated suburbs.

Social integration is a highly desirable outcome that reflects the existence of social cohesion and a strong culture of acceptance. Societies are better off if social integration is promoted through inclusive policies and human settlements that reduce economic inequality and poverty and which support sustainable and equitable development. This was the base of a study by Amartya Sen in 1999, "The Process of Expanding Human Freedoms", that was endorsed by the United Nations in 2008. Due to the qualitative nature of human settlements, social integration can be proxied by using variables that capture and measure how much social integration exists in a community at any given point in time. A group will strive to succeed with social integration and this is more viable when societies move toward sound economic goals and there are key non-economic elements that exist, for instance schools, parks, and the likes of community centres, that form the foundation of building integrated and cohesive societies.

The result of this valuable research is that good housing makes for good economies and healthy families, and the need in South Africa is significant.

Renewed commitments have been made by Government to ensure that developments include all social classes to promote this social cohesion. The Group is in the fortunate position of being responsive and flexible between markets in these integrated developments, thereby reducing development risk when affordability declines in any one of the market segments. Integrated developments offer consumers a wide range of ownership and rental opportunities. The housing types cater for various income levels, targeting income earners from below R3 500 up to R30 000+ per month in combined income.

Calgro M3 housing segments

Public sector		Private sector			
Subsidy of the day	**Subsidy as per national community residential units ("CRU") policy**	**Up to R400 000** (Institutional subsidy from public sector of R272 000 included)	**Up to R520 000** (Reviewed consistently to enhance value offering and ensure affordability)	**Up to R900 000**	**R900 001 up to R3 000 000+**
Breaking new ground ("BNG") fully subsidised ownership	**Community residential units** ("CRU") (subsidised rentals – council)	**Social housing** (subsidised rentals)	**GAP, FLISP and private rental housing segment**	**Affordable housing**	**Mid to high income housing**
Providing fully subsidised units to qualifying South Africans (updated version of Reconstruction and Development Programme ("RDP") housing)	The community residential unit ("CRU") programme comprises subsidised rental units owned by the public sector	Social housing is a rental or cooperative housing option of subsidised rentals owned by non-profit social housing institutes	Grassroots affordable people's ("GAP") homes cater for people excluded from the subsidised programme but with incomes too low to qualify for traditional affordable homes	Full and sectional title residential units aimed at homeowners in the bonded market regulated by the Financial Services Charter ("FSC")	Full and sectional title residential units aimed at homeowners in the bonded market, outside the FSC*
Targets income earners < R3 500 pm	Targets income earners < R7 500 pm	Targets income earners < R15 000 pm	Finance linked individual subsidy programme ("FLISP"). The product was introduced when the affordability level to qualify for subsidised housing was removed, allowing people previously disqualified based on income, to qualify for a partly subsidised home	Targets income earners > R22 001 pm	Targets income earners > R30 000 pm
Move into CRU if monthly earnings > R3 500 pm	Move to next housing segment depending on increased income level > R7 500	Move to next housing segment if monthly earnings > R15 000	Subsidies to the individual ranging from R27 960 to R121 626, depending on income level		
		Subsidy risk taken by social housing company, not Calgro M3	Targets income earners < R22 000 pm		

* *In October 2014, a social contract was entered into with banks and insurance companies under the leadership of the then Minister of Human Settlements, Lindiwe Sisulu. This followed from the Financial Services Charter and the Comprehensive Plan for the Development of Sustainable Human Settlements adopted by all stakeholders in 2005, to extend housing finance on a sustainable basis to low-income borrowers.*
* *The VAT increase from 14% to 15% promulgated on 1 April 2018 was absorbed by the Group.*

RESIDENTIAL PROPERTY DEVELOPMENT (CONTINUED)

The market in which we operate

Calgro M3 Residential Property Development and Residential Rental Investments business operate primarily in the lower end of the market where there is a strong demand and need of aspirant buyers, beneficiaries of subsidised housing and tenants that require better living conditions. The number of quality houses in the market have not kept track with the growth in the number of people in South African over the past couple of years, resulting in the need for quality houses increasing substantially.

Factors which will continue to fuel activity in the lower end of the residential property market incorporate a number of ongoing trends. These include an increasing demand for sectional title properties mostly in security estates, in convenient locations close to the workplace with all amenities available to first-time buyers and those downscaling or seeking a more manageable, lock-up-and-go property with reduced operating costs and more security to cater for a flexible lifestyle. In the major cities and economic hubs, it is evident that densification is a factor that will increasingly drive demand in the residential property market. Town planning departments around the country are focusing more on densities and have a reluctance to allow city sprawl while in Cape Town, in line with this trend, municipal by-laws were recently amended, giving homeowners the right to build a second dwelling on most properties, as long as certain criteria are met. In Johannesburg new laws have been adopted to regulate inclusionary housing in all developments. The below graph is a summary illustration by Lightstone Property Research of the residential market. If compared to the graph published in the 2018 integrated report it is evident that increases are in the sectional title and estate sections with a national effective decrease in freehold. It is also evident that a further 100 000 properties were newly occupied in the last year. Not all these properties would have been constructed during the past year as construction timeframes on estates and sectional title developments are between 18 and 30 months.

Property market overview

Source: Lightstone Property Research.

Data and various research shows that the most active price bands during 2018 for new development sales were between R500 000 and R1.2 million, a trend that is expected to continue into 2019. The buoyant market in 2018, being the lower market, is expected to increase slightly towards the end of the year as many families and investors currently remain concerned about "land grabs", a phenomenon which has affected all sectors of the property market across 2018 and 2019 to date. The average national price for an entry level home (80 to 140 sqm) is roughly R937 000, with an average medium-size house currently costing in the region of R1 255 000. This remains despite steady increases in the last year.

The Finance Minister in the budget speech announced funding for the upgrading of informal settlements and the "Our Help to Buy" subsidy, a pilot project with R950 million budget allocation over three years to help first-time home buyers acquire a home. This should act as a catalyst in the bottom end of the market that can assist 9 500 families to acquire their first-time home or stand (at an average of R100 000 subsidy per family).

Construction costs

According to Stats SA, the North West province has the cheapest construction costs in South Africa currently, while KwaZulu-Natal is the most expensive.

The average building costs in the North West province amounts to R5 060 per square metre, while construction costs in KwaZulu-Natal comes in at R9 610 per square metre.

The second most affordable province is Limpopo, at R5 270 per square metre followed by Mpumalanga at R5 690 per square metre.

The second most expensive construction province is Gauteng at R7 870 per square metre followed by the Western Cape at R7 020 per square metre.

The province with the largest amount of building plans approved per total square meterage for the period January to July 2018 was the Western Cape, followed by Gauteng and then KwaZulu-Natal.

Economics, elections and land expropriation without compensation

Current uncertain economic sentiment has four major impacts:

Although the lower end market was buoyant in 2018 it does seem that there is a slight slowdown in the rate of entry into the home ownership market, which could imply a higher portion of aspirant first-time buyers "hanging out" in the rental market for longer, boosting rental demand while guidance is awaited on section 25 of the constitution (land expropriation without compensation). This could:

- Encourage a greater portion of home sellers not to buy another home, but to opt for the rental market;
- Discourage buy-to-let buying, constraining rental home supply; or
- Encourage investment home owners to sell their rental properties in greater numbers, further increasing supply.

The above three factors, should they play out, could exert downward pressure on home values in the short-term but upward pressure on rentals. Most property experts agree that the market is currently favouring buyers, especially those who can afford it.

Land expropriation and the national elections could sway the market either way. Lightstone Property have published projections for the South African property market after the 2019 national election, believing the country will most likely experience a positive economic turnaround post-election, and certainty on economic policy and property ownership is likely to stimulate positive property market activity with possible robust recovery of the residential property market expected in 2019.

Housing shortfall

Based on research and information obtained from Stats SA, the four major banks, the Centre for Affordable Housing South Africa, as well as Lightstone, Calgro M3 estimates the housing backlog as follows:

- South African population: 58.3 million
- South African unemployment rate: 27.1%
- Number of households as per the 2011 census: 14.5 million (when the population was estimated at 51.8 million people)
- Average family size in South Africa 3.3

Calculation 1

- Amount of homes needed at the average family size = 17.7 million
- Less: unemployment of 27.1% = 12.9 million homes
- Less homes already in existence = 6.6 million (graph above)
- = Shortfall of 6.3 million

Calculation 2

- Amount of families – 2011 census = 14.5 million
- Adjust for population growth census (14.5/51.8*58.3) = 16.2 million families
- Less: unemployment of 27.1% = 11.8 million homes
- Less homes already in existence = 6.6 million (see page 40)
- = Shortfall of 5.2 million

Important to note: Not all unemployed people are without a place to stay. They generally live with family and friends and therefore deducting the full unemployment rate could be misleading.

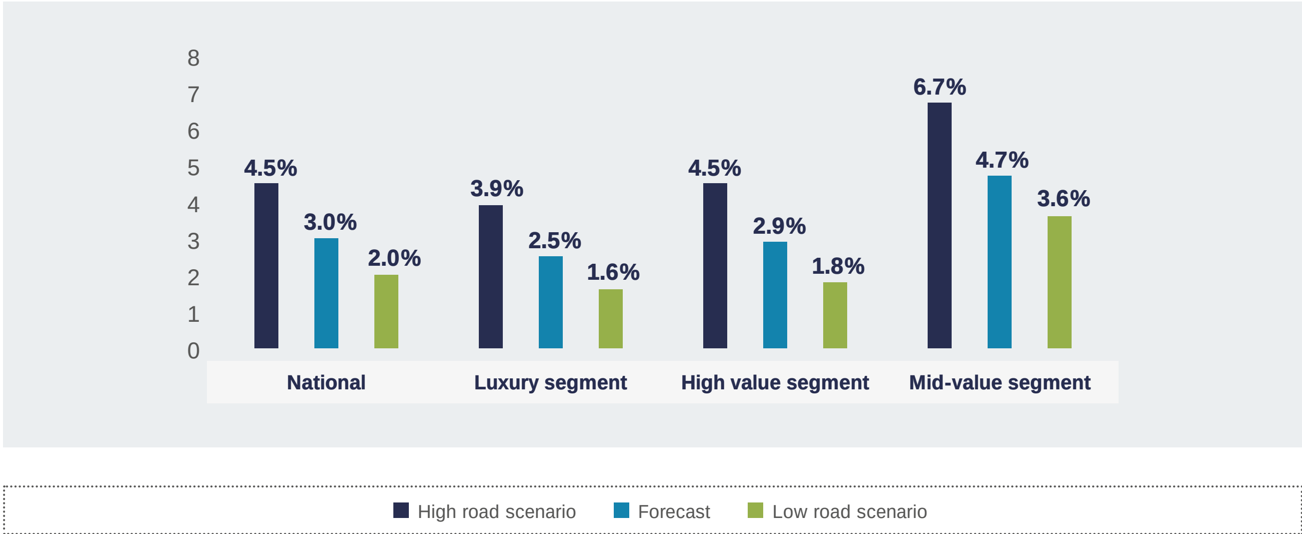
RESIDENTIAL PROPERTY DEVELOPMENT (CONTINUED)

Where to from here for the Residential Property Development business?

When questioned on their expectation of home buying activity, in FNB's Estate Agent Survey, a high percentage of agents pointed to "Economic Stress and General Pessimism", with the poor economy and political and policy uncertainty highlighted as contributing factors.

While some areas are experiencing sluggish growth, there are others that are outperforming with excellent growth and lucrative long-term investment opportunities. The latter is the market that Calgro M3 primarily operates in and we believe that our focus on houses below R1 million and core focus below R500 000 will provide good growth in the year to come. We are experiencing good growth in the secondary market on projects which is a further positive indicator that our products are targeted at the correct market.

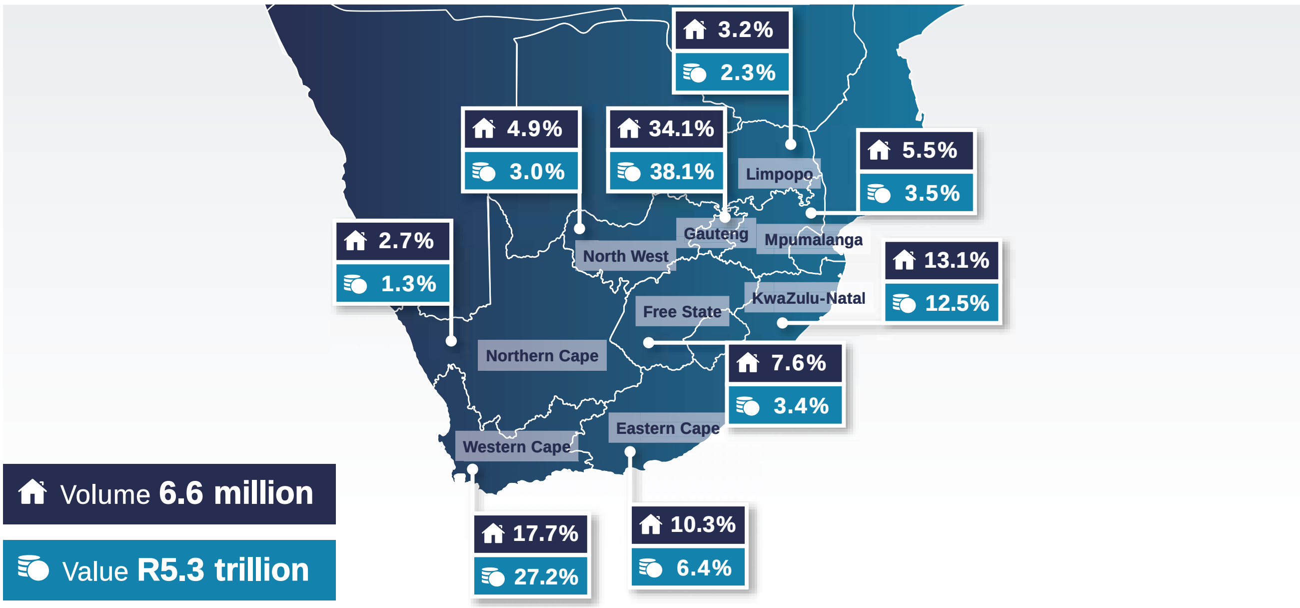
2019 year-end property escalation forecast by value band



Source: Lightstone Property Research.

Calgro M3 operations are primarily focused in the provinces of Gauteng, Western Cape, Free State and KwaZulu-Natal which represent a well-diversified market and more than 75% of the South African residential market in rand terms.

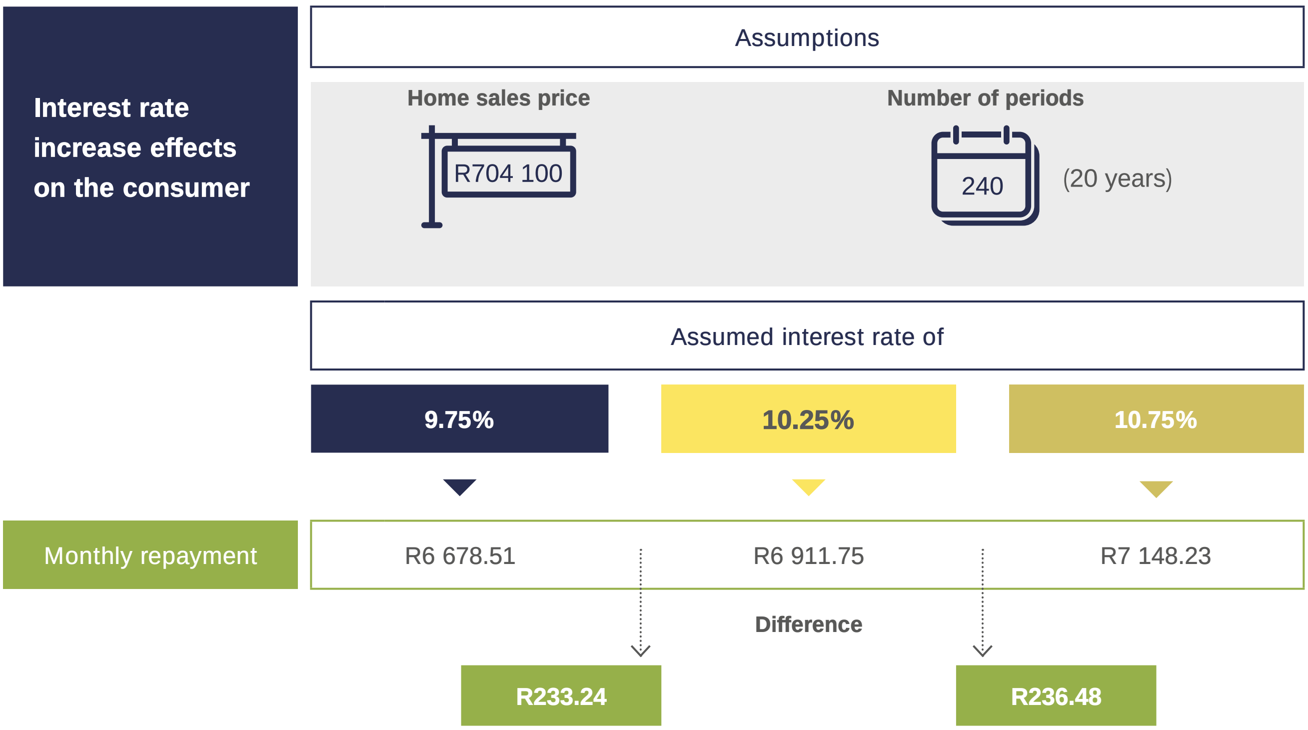
Disparity in the residential property market



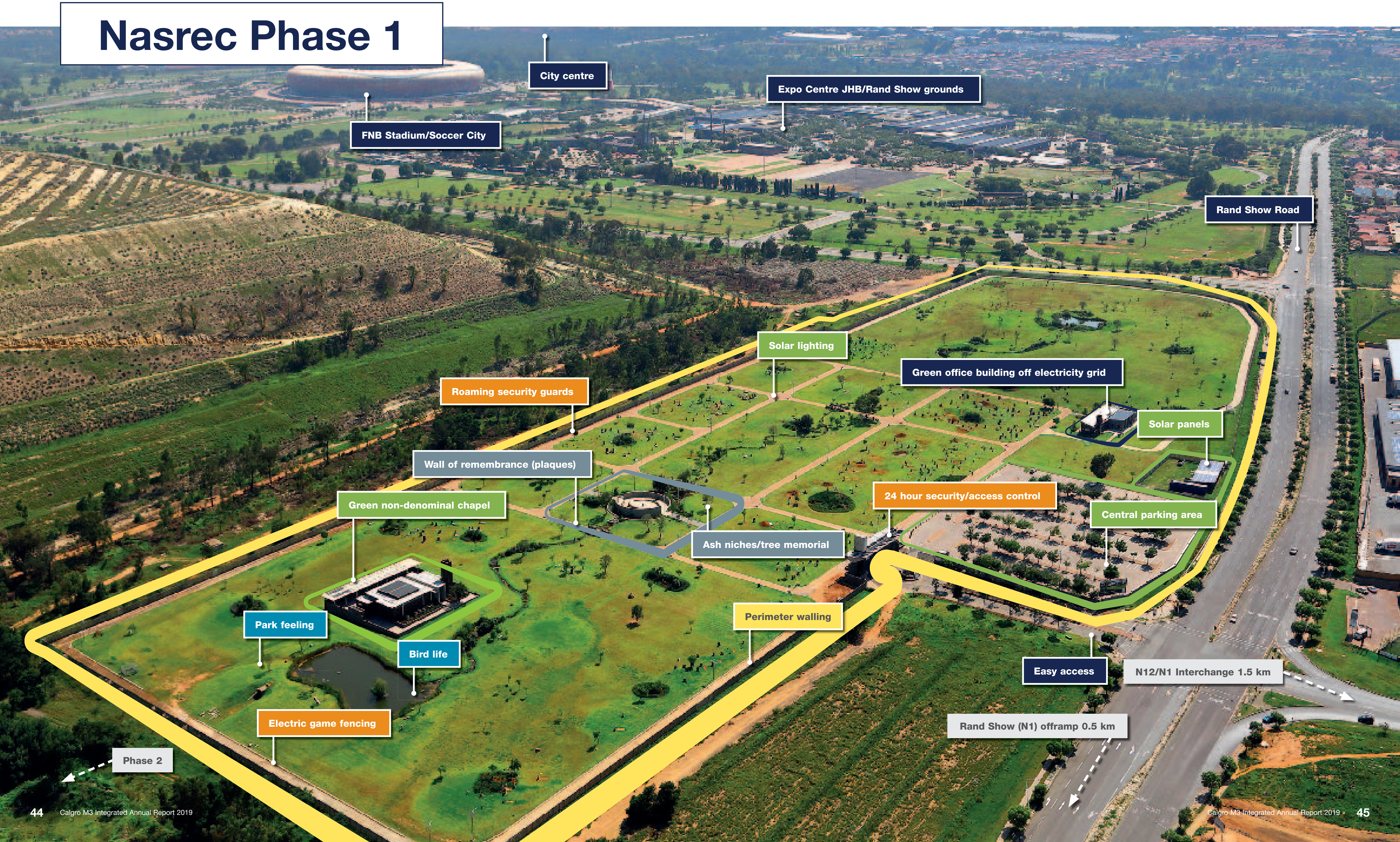
Interest rate impact

It is Calgro M3's experience across two decades of existence that the interest rate cycle has a limited effect on lower end market sales. Housing in South Africa is a necessity and not a luxury in this segment of the market, and although time is taken to consider the impact of the change in the interest rate, a decision to buy is ultimately based on a dire need for quality, affordable, secure housing, together with tenure of ownership. An evolving set of social, economic, political and environmental imperatives affecting the interest rate requires the Group's skillful response. What typically happens, is that a client who previously qualified for a 56 m^2 house, may now qualify for a slightly smaller 52 m^2 to 55 m^2 house, based on affordability. All bond and transfer fees are included in our prices, ensuring that the client gets maximum value for money.

What should be pointed out is that with each interest rate adjustment the new homeowner takes time to process the adjustment.



MEMORIAL PARKS



MEMORIAL PARKS (CONTINUED)

Calgro M3 Memorial Parks allow families the opportunity to lay their loved ones to rest in a tranquil, beautiful, safe and well-maintained setting.

Highlights and challenges

Please refer to the CEO and FD report on page 14 for a detailed analysis of highlights and challenges experienced by the Memorial Parks business in the 2019 financial year.

Outlook

- Overcrowding, in some instances lack of sufficient security and maintenance of traditional government cemeteries provides opportunities;
- Increased marketing campaigns to ensure increased sales;
- Innovative use of big data analytics to target customers;
- National roll-out plan developing rapidly;
- Approval of the Witpoortjie town planning rights;
- Town planning rights application submitted for Fleurhof and KwaNobuhle; and
- Exploring opportunities in Tshwane, Midrand and KwaZulu-Natal to grow the footprint and thus annuity income.

The concept of Memorial Parks originated from the need to find alternative uses for large portions of Calgro M3-owned land, that were not suitable for residential or other commercial purposes within its turnkey property development portfolio. Calgro M3 Memorial Parks is an alternative to traditional cemeteries, adds value to existing developments, introduces an alternative burial option that is dignified, secure and which delivers a service to customers, superior to other products in the market.

Calgro M3 ventured into the development of memorial parks, with its flagship development in Nasrec, Soweto as the pilot project. The park features a fully functional administration and sales office, 24-hour state-of-the-art security with roaming security guards, manicured gardens, a non-denominational chapel, as well as tranquil dams and streams with abundant bird life. Nasrec Memorial Park is completely self-sufficient, not relying on the electricity grid, with a solar powered system and backup generators.

The Group has subsequently acquired four additional memorial parks of the same or similar standard (Enokuthula, Fourways, Durbanville and Bloemfontein Memorial Parks) as well as receiving regulatory approvals for the Witpoortjie Memorial Park. This will be the first memorial park developed inside Calgro M3's Residential Property Development. The Group is actively working on achieving a national footprint, investigating opportunities in KwaZulu-Natal, Eastern Cape, Tshwane and Ekurhuleni.

Grave sales prices starting from (including VAT)	
Nasrec Memorial Park	R24 500
Fourways Memorial Park	R32 000
Enokuthula Memorial Park	R10 000
Durbanville Memorial Park	R18 300
Bloemfontein Memorial Park*	R10 000

Value offering included in price

- Perpetuity maintenance guarantee
- Opening and closing of grave
- Pre-death reservation of grave/s
- Site specific reservations and burials
- Personalised service
- Certificate of "Private rights" issued to clients
- After sales customer service

* *Bloemfontein Memorial Park currently only has ash niches for sale at a starting price of R3 500 (including VAT). Awaiting town planning approval for burial rights. Starting price per grave estimated at R10 000 per grave.*

The market we operate in

Death and burial services are topics not often dwelled upon. The reality is, however, that every person will at a point in time go through the process, and as a result, death has become a global industry worth billions of dollars each year. The funeral industry in South Africa is no different and has experienced continuous growth over the past decade.

According to a study released by Forbes in June 2017, half a million funerals take place in South Africa every year with an estimated value of R9 billion. Besides the actual funerals, there is a flourishing funeral insurance industry. In fact, funeral insurance is the most popular insurance cover in South Africa, and according to research undertaken worth over R7 billion. The value of the funeral industry in South Africa will continue growing with the increasing amount of people making provision for the cost associated with a funeral through funeral policies and burial societies. A South African insurance quotation specialist recently published that 7.6 million policy holders cover 18.9 million South African adults with a funeral plan.

Due to the relative affordability of funeral cover in South Africa, funeral insurance has increased significantly. Research demonstrates strong future growth in the region of 12% per annum expected over the next five years in the funeral industry across all major cities. This growth is driven primarily by three elements:

1. Employers are increasingly offering funeral cover as part of a standard benefit package;
2. Urbanisation is rapidly driving rural dwellers to the city. These new arrivals typically do not have the rural network where informal burial societies still cater for a large proportion of funeral costs. As they move into the formal economy, they typically engage in credit-related activities and a funeral policy supports the required need; and
3. Despite urbanisation, people do not abandon their traditional customs and yearn for cultural burials.

A typical funeral in South Africa can cost anything from R10 000, for a basic service, to far in excess thereof for additional requirements. The cost depends on the size of the event, determined by the number of people that attend, and most importantly, traditional requirements, based on the individuals' ethnicity and culture. In our research typical funerals cost from between R25 000 to R80 000.

Challenges faced by the industry in South Africa

- Shortage of burial land;
- Informal or illegal cemeteries;
- Insufficient funds from Government for the development, security and maintenance of cemeteries;
- High price of conventional and traditional burials; and
- Resistance by communities to adopt alternatives to burials such as:
  - Cremation
  - Recycling of graves.

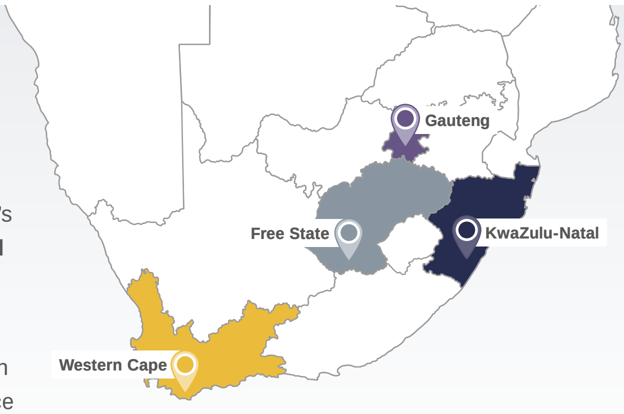
Current status of provinces

Johannesburg

City Parks in Johannesburg is encouraging residents to consider other options of committal. Of Johannesburg's **35 cemeteries, 28 are full**

Ekurhuleni

Investigating alternatives with grave space becoming scarce



Bloemfontein

Only three of the **12 cemeteries** in Bloemfontein and Botshabelo still have burial space

eThekwini

Three of the city's cemeteries are already full and the expectation is that they will run out of burial space soon

Cape Town

Opening two new cemeteries:

Metro South-East Cemetery in Mfuleni with a capacity of **24 800 graves**

New cemetery located between Somerset West and Firgrove with a capacity of **26 000 graves**

South Africa faces a shortage of approximately 8 million graves over the next 15 years, given current mortality rates. According to the World Health Organisation, this figure will most likely exceed 10 million in the same period for sub-Saharan Africa.

RESIDENTIAL RENTAL INVESTMENTS

South Hills

Typical elements found in our residential rental units

- Alarm systems
- Enabled
- Green conscious
- Rain water harvesting
- Gas reticulation for heating and cooking
- Window shutters for cooling

Close to:

- Work
- Communities
- Shops and amenities
- Parks

RESIDENTIAL RENTAL INVESTMENTS (CONTINUED)

While securing annuity rental income, our rental product offering also allows the Group to capitalise on infrastructure created in its Residential Property Developments as well as to address the lack of affordable rental opportunities in metropolitan areas.

Highlights and challenges

Please refer to the CEO and FD report on page 15 for a detailed analysis of highlights and challenges experienced by the Residential Rental Investments business in the 2019 financial year.

Outlook

- The Group estimates that there is a shortage of 1.5 million affordable residential rental units in South Africa;
- Investigating other developments for acquisition opportunities;
- Commitment to growing the rental portfolio to between R5 billion and R10 billion over the medium to long-term depending on yields achieved and funding availability during the roll-out phase;
- Investigating potential inhouse property management capabilities;
- Environmentally and technologically advanced units remain in demand; and
- Diversification across markets and geographic locations.

In line with our medium to long-term strategy, the Group entered this space to secure annuity revenue for use as operating cash within the Group. In addition to this, a property developer's biggest risk, when starting a project, is the availability and creation of bulk and link infrastructure. Each time a development commences, infrastructure is created, but it is sold off and new infrastructure is again created at a new project. By keeping some rental properties, the Group can capitalise on this infrastructure, which it has created, for much longer.

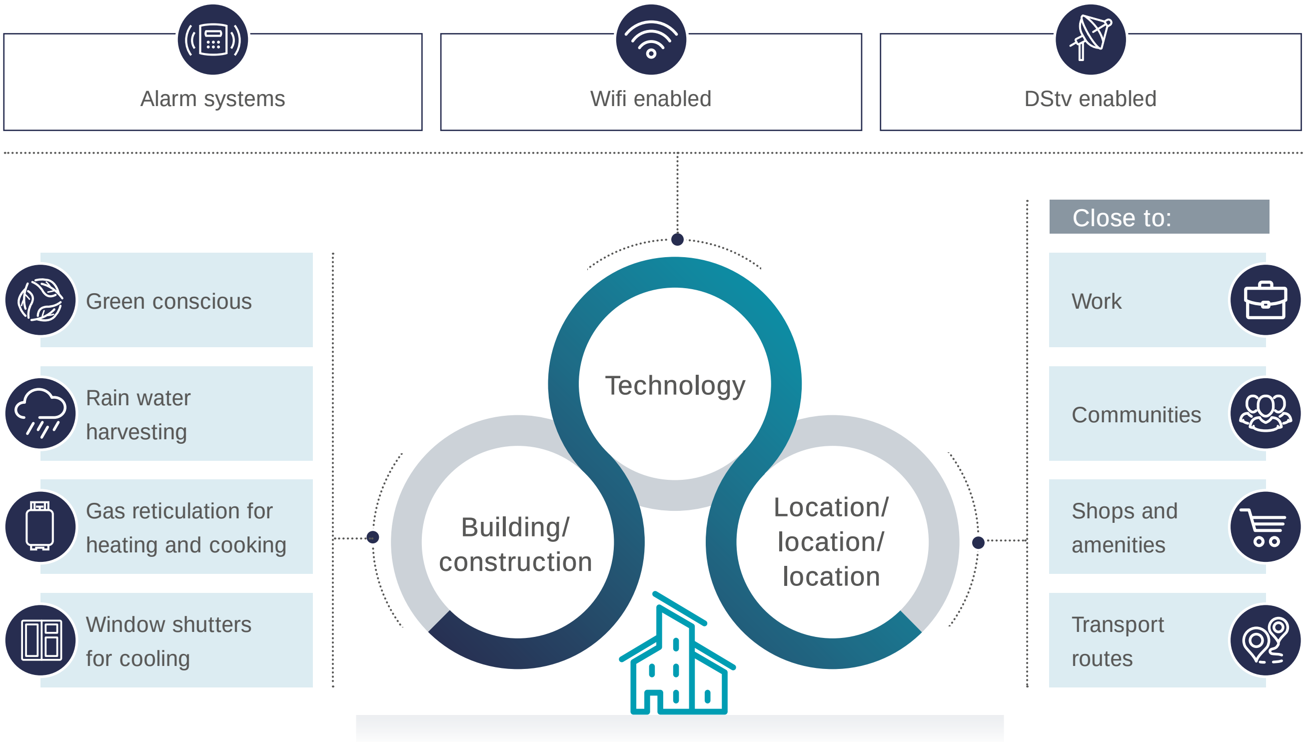
This strategy further aligns to assisting Government in the eradication of the housing backlog without exposing the Group to diminished public-sector spend. The majority of our clients who rent units in our developments are low to mid-income households who benefit from cross-subsidisation that the integrated development model offers.

For a long time, Calgro M3 investigated participating in the residential rental market. This led to Calgro M3 partnering with SA Corporate Real Estate (through their wholly owned subsidiary Afhco) for the first phase of our investment and which in turn led to the establishment of the Afhco Calgro M3 Consortium (Pty) Ltd (a Real Estate Investment Trust ("REIT")), to service the low to mid-tier residential rental market in South Africa. Of the first tranche of 3 852 units, 1 556 units have been completed and handed over to the consortium since November 2017.

During the current year, a decision by the partners was taken to dissolve the joint initiative as a result of differences in economic drivers between a listed REIT group and a listed property developer. The dissolution led to Afhco retaining 740 units in South Hills and 288 units in Jabulani. Calgro M3 Real Estate retained 152 freestanding units in South Hills, 176 multi-storey units in Scottsdene and 200 units in Fleurhof, all of which were completed and delivered to the REIT JV over the past 18 months. The remaining undelivered units in Fleurhof, Scottsdene and Belhar will be completed and either retained as rental properties or sold to third-party customers, depending on the cash flow position and outlook of the Group at that stage. The 828 units in Fleurhof (which include the 200 completed historically) that were earmarked for the REIT JV, have already been sold to the Gauteng Department of Human Settlements that will pay the purchase price on a progress draw-down basis.

The Group remains firmly committed to its strategy of growing this rental business as a form of risk diversification and to supply an annuity income stream. This strategy is elaborated on in the CEO and FD report on page 15.

Rental unit demand is enhanced by ensuring:



The market we operate in

Rental market data and research, conducted by Renprop, is indicating an increasing level of delinquent applications. This is a sign that households are under financial pressure, making them price sensitive, which results in downward pressure on rental prices. Stats SA CPI data for residential rentals shows that the rate at which rental prices are increasing is slowing down.

From a multi-year high inflation rate of 5.68% year-on-year in the September 2017 CPI survey, inflation decreased to 4.19% as at the June 2018 survey with a slight increase to 4.5% towards the end of 2018. This low rental inflation is good news in terms of keeping inflation down and interest rates relatively low. This has however subdued capital appreciation and therefore the drive by Calgro M3 to increase gearing on its property portfolio to 60%. Gearing at these levels will ensure good equity returns on the back of property escalations linked to rental increases.

Data from TPN shows that the percentage of tenants "in good standing" with their landlords regarding rental payments declined from a high of 85.95% of total tenants in 2014, to 82.64% in 2018. The data also shows that not all tenants "in good standing" are able to pay on time, with an increasing number paying late. The percentage of tenants paying on time has dwindled from 72.52% in 2014 to 65.49% mid-2018.

The lowest income groups are generally hardest hit by weak economic conditions. The most noticeable decline in the percentage of tenants "in good standing" took place in the rental category "below R3 000/month". In this category the percentage of tenants "in good standing" dropped from 81.95% back in 2014 to 73.19% and is now the poorest performing rental category. Data from TPN further illustrates that the category where rentals are pitched between R5 000 and R12 000 per month, has experienced the highest level of demand, again a trend expected to continue into 2019. This is the rental market that Calgro M3 is targeting. The percentage of tenants "in good standing" is the highest on average across all categories – above 87% of all tenants.

Advantages of renting a home for the client:

- Renting is more affordable than buying, especially if the area is upmarket;
- Tenants benefit from having a fixed rental payment;
- No rates or taxes;
- No insurance;
- No maintenance risk;
- No long-term commitment;
- Ability to move with a job which also reduces travel time and costs;

RESIDENTIAL RENTAL INVESTMENTS (CONTINUED)

- Flexibility is key, with a tenant finding it easier to relocate than a homeowner;
- Monthly spend is predictable and includes home content insurance, but no maintenance, bond repayments, body corporate accounts or special levies; and
- Excess funds can be invested in various asset classes other than a bond or usually means that additional cash is spent on children's education.

Advantages of investing in rental property for a corporate:

- Bulk insurance making costs efficient;
- Bulk municipal services leading to economies of scale;
- Bulk maintenance costs; and
- Able to provide free services such as fibre, security, etc to tenants as a result of pricing on corporate contracts.

Where to from here for the Residential Rental Investment business?

A significant increase in the numbers of "aspirant" rental tenants is expected to come about in the near term, along with a more constrained supply of rental stock. However as discussed above it will be critical to identify the strong tenant from the financially pressured ones as the economy continues to apply pressure on households in general.

3

STATUTORY REPORTS

Contained in this chapter

This chapter includes feedback from our Chairperson, including her views on the business and the wider industry, followed by the Remuneration Report, which contains important information on remuneration structures and performance requirements.

The critical area of risk management is also discussed, along with details pertaining to the probability, impact and total risk weighting assigned to major risks. The chapter concludes with the segmentation of wealth distribution between employees, lenders, the portion which is reinvested, the portion paid out to subcontractors, as well the portion spent on tax.

CHAIRPERSON'S REPORT

Pumla Radebe
Chairperson

Introduction

Despite this having been a particularly difficult year for Calgro M3, the future sustainability of the company remains intact given the pipeline of developments, rental units and memorial parks making me excited about the future.

It must, however, be noted that the Group's performance should be measured against the context in which Calgro M3 operates. I think most readers would agree that the past year has been marked by unprecedented levels of uncertainty in South Africa, both politically and economically. Poor economic performance has resulted in increased pressure on consumers, who have had to cope with tax (VAT), fuel and food price increases – amongst others. This in turn meant that they had less disposable income available, particularly those consumers in the middle to lower income brackets, who are largely our target market. This has of course had a negative effect on the sales and rentals of Calgro M3 homes, and to a lesser extent, on our memorial parks' products. I am, however, very proud that the Group has assisted clients by absorbing the VAT increase on behalf of clients.

It certainly would be remiss not to mention the impact that land expropriation without compensation has had on Calgro M3, negatively impacting the Group to the tune of roughly R71 million, mainly as a result of criminal elements invading properties. Calgro M3 had to resort to legal action to evict the invaders as well as allocate vast amounts of additional money towards heightened security at the invaded locations. Since October 2018 no invasions have taken place; however, criminal elements still take up management's time at the Cape Town properties, where additional security is in place.

The Group's decision to dissolve its joint initiative with SA Corporate, Afhco Calgro M3 Consortium (Pty) Ltd, as announced via SENS on 15 March this year, was by no measure a decision that was taken lightly. One of the reasons for the decision was the impact of the temporary electrification challenges experienced at Fleurhof, the illegal invasions at Scottsdene, and the slow tenancy take-up of the South Hills free-standing houses had on the joint initiative's ability to sufficiently tenant available units in these developments, which in turn put the JV company's targeted yields under pressure.

It was unfortunately through incidents such as this that both partners came to realise that the fundamental goals and risk appetites of a property development company diversifying into a more long-term annuity income market versus that of a pure yield driven REIT are vastly different, and thus the decision was taken to dissolve the initiative. Read more detail in the CEO and FD's report on page 15.

Commitment to governance

We have continued applying the 16 principles as contained in King IV and the Governance Register. The detailed document is contained on the Calgro M3 website.

Board changes during the year

During the year under review George Hauptfleisch was appointed to the Board as an Independent Non-Executive Director and assumed responsibility as the Chairperson of the Audit and Risk Committee. I would like to thank Ralph Patmore for stepping in as Chairperson after the passing of Hugh Cameron.

Venete Klein resigned from the Board on 14 February 2019 and will not be replaced at this point in time. Please refer to the Corporate Governance report for additional information on future appointments.

Commitment to Environment, Social Impact, Governance ("ESG")

A detailed Sustainability Report as well as Corporate Governance Report is available on the website.

The elements of ESG – the environment, social impacts and governance – are ingrained across the business. Pleasingly, stakeholders are increasingly focused on these elements, which directly supports the sustainability of the business. I am proud to report that Calgro M3 has a UN Global Compact status of GC Advanced which "recognises companies that strive to be top reporters and declare that they have adopted and report on a broad range of best practices in sustainability, governance and management".

Furthermore, Calgro M3 is currently following the certification process of the ISO standards of Health, Safety and Environmental Management – ISO 14001:2015 and ISO 45001:2018. Certification will take place in the second half of the calendar year. The Group has also started adopting the principles contained in Quality Management System – ISO 9001:2015. Details on possible certification will be provided in future.

A cornerstone of good governance is ensuring that the correct remuneration policy and rewards are in place for the executive team at Calgro M3. We are pleased to remind readers that at the 2018 AGM, held on 29 June 2018, the non-binding advisory endorsement of the Remuneration Implementation Plan received 100% votes in favour of the resolution.

We are encouraged that President Cyril Ramaphosa supports home ownership with the mindset that title deeds are important for individual wealth creation. Furthermore, we believe the announcement of a Help-to-Buy subsidy for first-time home owners is another step in the right direction. The funding of R14.7 billion over two years for informal settlements is also positive action in a country where basic housing is still extremely lacking.

South Africa found itself in economic recession in 2018, its second since the early 1990s. The recession spanned the first two quarters of the year, with the economy shrinking by 2.7% in the first quarter and contracting further by 0.5% in the second. It was encouraging that the economy grew by 2.6% and 1.4% in the third and fourth quarters respectively. However, this must be seen in the light of a real annual growth rate of just 0.8% in 2018, which is very low.

We are heartened though that the forecast rates for 2019 are looking better, with first quarter growth expected to come in at 1.2%, the second at 1.3%, the third at 1.5% and last at 1.5%, and GDP growth is expected to be 1.7% for 2020. We are also hopeful that the proposed Infrastructure Fund will come to fruition, and that foreign investment into the economy improves.

Appreciation and looking forward

Whilst the political leadership changes in South Africa in this past year have been welcome, we join many in the country in hoping that the changes will lay a solid foundation for economic growth, investment and prosperity in the future.

For Wikus and his executive management team it has been a challenging year, but they have navigated each hurdle carefully and successfully. I would like to thank them for their steadfast approach during this time, and for maintaining focus throughout a difficult period.

To all our customers, I join the Board and the executive team in thanking you for your support of Calgro M3, and your faith in us to deliver quality products to you, whether in the form of a new home, or assistance in finding the best resting place and product for the passing of a loved one.

Rest assured that Calgro M3 remains committed to our vision, which is to build legacies and change lives by delivering quality products and service of the highest standards.

Pumla Radebe
Chairperson

10 May 2019

REMUNERATION REPORT

Remuneration philosophy

Calgro M3's remuneration philosophy is designed to attract, develop and retain passionate, committed and talented people who are required to effectively implement the overall Calgro M3 strategy to create value for shareholders.

Over many years, the Group has refined its remuneration policy and practices to support our aim of being a thriving, growing Group which is highly dependent on the motivation of its people. During the year, further refinement of the Group structure took place and will continue to take place as strategy dictates.

This saw separate management teams appointed for each of the three distinct businesses in an endeavour to extend capacity. The Group believes that its remuneration practices are in line with the King IV remuneration governance principles, and that these principles underpin the achievement of its business objectives, its ethical culture and an overriding philosophy of "pay for performance". Employee compensation is annually the largest item under the value-added statement distribution of wealth section. During the 2019 financial year, employees received 79.22% of the total wealth created by the Group. (See the value-added statement on page 67.)

Remuneration strategy

The remuneration strategy takes cognisance of local and industry specific remuneration best practices to ensure that the Group attracts and retains the appropriate skills and talent. The Remuneration Committee considers a holistic compensation model when approaching the remuneration of all employees, members of the management teams of each business, Executive Directors, prescribed officers and fees paid to all Non-Executive and Independent Non-Executive Directors.

Remuneration policy

Middle and senior management and employees

The Company's target is to remunerate all performing employees between 50th and 90th percentile when short and long-term incentives are included, thereby ensuring that these employees are properly benchmarked (please refer to guaranteed remuneration) within their respective disciplines. Further to this we also differentiate between bonuses and targets for different businesses and departments in the Group. This is all in an endeavour to ensure that staff are financially motivated in their respective fields.

Components of employee remuneration

The Remuneration Committee ensures that the components of remuneration, being annual guaranteed remuneration, short-term incentives and long-term service rewards are linked in such a way as to achieve the Group's strategy, and drive performance objectives.

In the case of management in each of the underlying businesses, the Group has identified that each entity requires a different combination of the elements of remuneration. Group executives believe that no senior management member should be motivated by money, but each member should be rewarded in a way that makes them feel proud of what they have "earned" for their family.

Employee benefits

Calgro M3 makes provision for employee retirement funding by means of a defined contribution fund, which is compulsory for all salaried employees. The Group also provides employees with death, disability and funeral cover benefits as part of its Group risk policy taken out with Discovery insurance. During the year, the Group increased the funeral policies for all salaried staff to R50 000 at no additional cost to employees.

Group Executive Management

The remuneration strategy for executive and senior management is based on principles of retention of key and critical skills and to drive performance in alignment with shareholders' interests, through guaranteed remuneration and short and long-term incentives. A significant portion of an executive's total potential remuneration is performance-related in order to encourage the right behaviour to optimise Company performance. Targets are set annually in the context of prospects of the Calgro M3 Group and the prevailing economic environment in which it operates.

Components of Executive Remuneration

The Remuneration Committee ensures that the components of remuneration include:

- Guaranteed remuneration – Benchmarked to between the 50th and 75th percentile;
- Short-term incentive – Up to double guaranteed annual remuneration, if specific targets are achieved;
- Long-term incentives – Calculated at four times the individual's guaranteed annual remuneration at the time of vesting, with vesting occurring over a five-year period if all targets are met.

The above was developed and implemented to ensure achievement of the Group's strategy and performance objectives.

Benchmarking was performed by PE Corporate Services, an independent consultant, in August 2017 for application in the 2018 and 2019 financial year. This benchmarking resulted in extraordinary adjustments made to Messrs Williams, Nkuhlu, and Joubert's guaranteed remuneration in the 2018 financial year. External benchmarking takes place every two years and will be performed in August 2019.

Guaranteed Remuneration

Increases for all management levels as well as staff, are adjusted at our annual increase cycle in September and will again be CPI linked. The Group also provides an additional increase to lower earning staff members to promote distribution of wealth to this bracket. This is offset by a lower increase awarded to executive management.

Middle and Senior Management and Employees

The Group utilises a total "cost to company" approach, which encompasses a cash component and retirement funding contributions. The compensation of all management and employees are determined by industry benchmarking performed by PwC's Remchannel platform, together with oversight from the Remuneration Committee.

Group Executive Management

The Group utilises a total "cost to company" approach, which encompasses a cash component, fixed car allowance and retirement funding contributions. The Remuneration Committee considers benchmarking remuneration through external consultants (mentioned above), which enables reliable comparisons of remuneration for executive job descriptions and other disciplines in the sector.

Variable Remuneration

Middle and Senior Management and Employees

All permanent employees qualify for short-term incentives.

A long-term service incentive to remunerate staff committed to the Group for a long period of time was implemented during the 2019 financial year.

Short-term incentives

Permanent employees

- A bonus pool is calculated annually based on Group profit between 1 September and 31 August of the next year for all general and administrative staff that do not have specific individual performance measurements;
- The total bonus pool is a percentage of the profit after tax based on the average percentage profit of the previous three years;
- The bonus pool is divided by the total average staff payroll to determine the average number of monthly pay "cheques" per employee;
- A minimum allocation per employee is determined by Group Exco;
- Any surplus bonus amounts are allocated to highly committed, top performing employees;
- Bonuses are payable in December of that year;
- An employee will not qualify for a bonus if the employee:
  - is still in a probation period
  - is under performance management
  - has received a final written warning during the period
- An employee will only qualify for 50% of an allocated bonus if the employee received any written warnings during the period.

Sales agents (all three businesses)

- Our sales agents are remunerated on a variable commission structure based on a sliding scale and volume of transactions. This commission is payable monthly if various sales and closing milestones are reached. Sales agents do not qualify for any other short-term incentives.

Contract managers

- Contract managers are rewarded and receive a bonus based on the performance of their respective sites.

Memorial Parks

- Memorial Parks management and staff are rewarded in several ways that range from quarterly, bi-annual to annual bonuses, depending on the type of role and the measurement of performance of the individuals. No Memorial Park staff member is on a guaranteed bonus as all employees are responsible for creating and demonstrating a culture of superior client service. All employees are partially measured on client feedback received.

Long-term service incentive

Five years of service

- Two (2) extra leave days per year to be added to the employees' annual leave, taking the annual leave days up to 17 days from the normal 15 days.

10 years of service

- Two (2) extra leave days per year to be added to the employees' annual leave, taking the leave days up to 19 days from the 17 days they had post five (5) years' employment;
- Monetary compensation of two months' salary at the prevalent salary at the date of payment.

15 years + of service

- Two (2) extra leave days per year to be added to the employees' annual leave, taking the leave days up to 21 days (maximum leave days for any staff member) from the 19 they had post 10 years employment;
- Monetary compensation of three months' salary at the prevalent salary at the date of payment.
- Monetary compensation of three months' salary at the prevalent salary at the date of payment for every five (5)-year increment after 15 years.

REMUNERATION REPORT (CONTINUED)

Long-term incentive scheme for senior management effective 1 March 2019

- Value of award is set to realise a targeted percentage of guaranteed remuneration when vesting;
- Award of 1.5 to 2 times guaranteed remuneration at time of the award:
  - Award can be increased up to four times guaranteed remuneration over the five (5)-year period of the scheme, as new awards can/will be made on an ongoing basis to ensure that the plan remains a continuous reward plan for performing senior management members that need to be retained.
- Payment of award to be made in cash. One third in year three (3), one third in year four (4) and one third in year five (5), subject to the manager being in the employment of the Company (and his/her notice of resignation has not been tendered at that stage), otherwise the award falls away. Vesting will occur at the end of February each year and will be paid 1 August of that same year.
- Performance measure:
  - 50% of the award to be measured against the Company's profit after tax growth (for the particular business division/segment) that exceeds inflation, plus a margin of 2%, compounded from commencement to vesting:
    - 25% of the 50% vests if the division's profit after tax growth is equal to the above-mentioned compounded profit growth target (inflation + 2%)
    - 50% of the 50% vests if the profit after tax growth exceeds the target by 10%
    - 100% of the 50% vests if the profit after tax growth exceeds the target by 20% or more.
  - 50% of the award to be the growth in Total Shareholder Return ("TSR"), as a percentage, compared to the combined average movement in the Industrial, Property and Construction Share Index ("SI") over the three to five-year period:
    - 25% of the 50% vests if the compounded TSR growth is equal to the compounded growth in SI + 2%
    - 50% of the 50% vests if the compounded TSR growth exceeds the SI by 10%
    - 100% of the 50% vests if the compounded TSR growth exceeds the SI by 20% or more.
  - Vesting to be rolled over for two years in the event that the Company growth and the TSR does not exceed the benchmarks on the first and/or second vesting (year three and four) but will vest if the required milestones are met on a cumulative basis over a five-year period.

Group Executive Management

Short-term incentives

The objectives of the short-term incentive ("STI") policy are:

- To motivate executives to manage and lead the business successfully and to drive strong long-term growth in line with strategy and business objectives
- To provide competitive and balanced, performance-related remuneration
- To ensure that the interests of the executives are aligned with those of shareholders by linking remuneration directly to the Company's bottom line profit and strategic and operational objectives; and
- To ensure that there is transparency and responsible remuneration of executives.

The bonus pool will be calculated in increments, based on the percentage growth in Headline Earnings ("HE") (after bonus payment is taken into account). The calculation of the pool is in line with the calculation method of the previous three (3) years.

If new IFRS changes come into effect after targets have been set, the bonus will be calculated, paid and reported on, based on the IFRS requirements in place at the time of setting the targets at the beginning of each financial year.

The Group Executive Management STI bonus pool is calculated as follows:

< 10%	= equal	> 20%	> 40%	> 60%	> 80%	> 100%
of previous financial year Headline Earnings						
3% – if Group is still profitable after payment of bonus	6%	7%	8%	9%	10%	12%

In line with the King IV principles, the bonus pool has sub-parameters to ensure that the executives focus on all elements and aspects of the Group's businesses, and not just profit. This should benefit all stakeholders as it ensures that the businesses are managed on sustainability principles. Once the STI bonus pool is calculated in terms of the above methodology, the allocation is done as follows:

40%	**Financial targets**

Targets will be based on Return on Equity ("ROE") targets, as outlined below. The calculation will exclude any IFRS adjustments on equity as IFRS adjustments do not give rise to additional equity to be deployed in the businesses.

Equity deployed in each of the businesses will be based on the segmental report. All businesses are funded in the same debt to equity proportions to avoid any interpretation requirements or bias.

Equity calculated as: Opening capital available to be deployed (as per segmental report).

The following minimum targets will be applicable for the next three (3) financial years:

1. **Residential Property Development business – 25% ROE (HEPS/Equity)**

2. **Memorial Parks business – A sliding scale building up to 25% ROE (HEPS*/Equity)**
   (i) 2020 financial year: 17.5%
   (ii) 2021 financial year: 20%
   (iii) 2022 financial year: 25%

   * Due to the disparity between cash generated and accounting profit recognised in the Memorial Parks business, the ROE for Memorial Parks will not be calculated on the traditional ROE principles, but will be based on the following two principles:
     (i) Cash generated from operations after interest and taxation, divided by Equity invested
     (ii) A minimum of 50% cash gross profit margin must be achieved.

3. **Residential Rental Investment business – 20% ROE (Total return (including revaluation)/Equity)**

Should the ROE target be reached for each of the three businesses, then the full 40% allocation of the STI pool will be granted. Should any of the individual businesses' targets not be reached, then a proportionate allocation will be done based on equity deployed to each of the businesses.

From year four (effective in the 2023 financial year), the following targets will apply:
Consolidated Group numbers – 25% ROE (HEPS/Opening Equity)

20%	**Risk mitigation and sustainability**

All risks equal to or above a level 12 scoring (based on impact and probability (1-5)) on the Group's risk register to be managed, to remain consistent or reduce. The weighting remains high to align with the Group's main driver of risk mitigation to ensure sustainability.

20%	**Empowerment targets**

Retain or improve the current level. If the scoring elements on the scorecard changes, a recalculation by a reputable consultant based on the previous scorecard will be performed.

20%	**Board discretion**

The Board will use its discretion in assessing the efforts and contribution of each member in achieving the various targets set.

	General discretion

Where no pool is available for allocation, the Board can award an individual with a discretionary bonus of up to 20% of his/her annual guaranteed remuneration in recognition of exceptional performance, while operating in a difficult environment/under difficult circumstances outside his/her control.

REMUNERATION REPORT (CONTINUED)

Proposed new 2019 long-term Executive Share Incentive Scheme (subject to shareholder approval)

Pursuant to the cancellation of the 2015 Executive share scheme, as dealt with under the section "Voluntary cancellation of the 2015 Executive Share Scheme and Settlement" a new long-term incentive was developed by the Remuneration Committee as set out below.

In terms of the scheme, the participants, whom are all Group executive directors, will be remunerated over the long-term when the Group shows a return higher than the average market return for investors. It will be a share-based remuneration scheme, with share appreciation rights being allocated in favour of participants and Calgro M3 shares then being issued in the event that certain compounded share price growth targets per share are achieved.

The implementation of the scheme will ensure that the interests of the executive directors are aligned with those of shareholders, as the share-based remuneration will be determined by the growth in value of Calgro M3's shares.

It is a five (5)-year scheme, commencing on 1 March 2019 (subject to shareholder approval), with the allocated share appreciation rights vesting in four (4) yearly tranches on 1 March in each of 2021, 2022, 2023 and 2024.

The number of allocated share appreciation rights is based on a year-on-year total shareholder return ("TSR") of at least 15% and return for participants based on four (4) times the guaranteed annual salary of each participant as at 1 March 2019.

The participants and their allocated share appreciation rights are as follows:

Participant	Share appreciation rights to be awarded
WJ Lategan	**2 423 599**
W Williams	**1 759 745**
MN Nkuhlu	**1 832 826**
WA Joubert	**1 686 383**
Total share appreciation rights	**7 702 553**

The allocated share appreciation rights will vest in four equal tranches on each of the vesting dates.

Share appreciation rights will only vest if a minimum year-on-year TSR increase has been achieved in the year of vesting and will be measured against a base price of R7.95, being the 30 VWAP of Calgro M3 shares at the close of business on 28 February 2019.

The number of share appreciation rights that vest on a vesting date will depend on the achievement of the different TSR milestones. TSR milestones required for vesting of the allocated share appreciation rights are as follows:

1. First vesting of ¼ of the allocated share appreciation rights – year two: 1 March 2021:
   (a) 100% at a compounded TSR of 15% from 1 March 2019
2. Second vesting of ¼ of the allocated share appreciation rights – year three: 1 March 2022:
   (a) 50% at a compounded TSR of 15% from 1 March 2019
   (b) 50% at a compounded TSR of 20% from 1 March 2019
3. Third vesting of ¼ of the allocated share appreciation rights – year four: 1 March 2023:
   (a) 33.3% at a compounded TSR of 15% from 1 March 2019
   (b) 33.3% at a compounded TSR of 20% from 1 March 2019
   (c) 33.3% at a compounded TSR of 25% from 1 March 2019
4. Fourth vesting of ¼ of the allocated share appreciation rights – year five: 1 March 2024:
   (a) 33.3% at a compounded TSR of 15% from 1 March 2019
   (b) 33.3% at a compounded TSR of 20% from 1 March 2019
   (c) 33.3% at a compounded TSR of 25% from 1 March 2019

To determine whether the allocated share appreciation rights are in the money on the vesting date, the base price (R7.95), compounded annually for the above targets to be achieved each year, shall be measured against the 30-day VWAP of Calgro M3 shares at the end of business on 28 February of the year in which a vesting is determined.

The value of vested share appreciation rights will be determined by taking the difference in value between the base price of R7.95 and the 30-day VWAP of Calgro M3 shares at the end of business on 28 February of the year in which a vesting is determined and multiplying this with the number of share appreciation rights allocated for each TSR milestone reached.

The remuneration to which a participant becomes entitled, will be paid through the issuing of ordinary Calgro M3 shares at the 30-day VWAP price as at 28 February of each year.

The Calgro M3 shares will vest on the vesting date but will only be issued on 30 June of each vesting year.

For purposes of clarity, herewith a synopsis of how the remuneration and number of shares to be issued, will be determined:

Example:

- Total share appreciation rights allocated = 1 000 000
- Base Price = R7.95
- Vesting tranche = 250 000
- Vesting Date = 1 March 2021 (the first vesting date)
- The minimum TSR for vesting to take place at the first vesting date (1 March 2021) is R10.51, being R7.95 compounded by 15% over two years
- At the first vesting date (1 March 2021) the 30-day VWAP of the share price is R10.95, and therefore the minimum TSR has been achieved (it being more than the minimum TSR of R10.51)
- Increase in share price from = R3.00 (i.e. R10.95 current price – R7.95 base price)
- Calculation of value of share appreciation rights and number of shares to be issued:

250 000 share appreciation rights x R3.00 = R750 000 ÷ R10.95 per share (being the share value at that stage) = 68 493 shares

Therefore 68 493 Calgro M3 shares will be issued to settle the vested share appreciation rights.

If the minimum TSR for a specific year is not met, then the vesting for that year will be deferred by one year. If the compounded 15% TSR targets as set out in point 10 is also not reached the following year (as per the following years targets), the award for the year that has been deferred, will lapse.

In terms of the scheme, Calgro M3 shares will be issued in favour of a participant, only if the participant is still in the employ of the Company on the issue date (30 June each year). This gives rise to an effective lock in period.

Voluntary cancellation of the 2015 Executive Share Scheme and Settlement

In response to the current year adjustments to opening retained earnings, resulting from the IFRS 15 and IFRS 9 implementation, the participants of the executive share scheme unanimously agreed to cancel the current share scheme to unlock the current share-based payment reserve and reverse the reserve to retained earnings in order to enhance equity. This was decided as a key covenant to the Group's debt providers is the net debt/equity ratio that has a maximum level of 1.5:1 and this ratio was negatively impacted by these IFRS adjustments.

The cancellation of the scheme was accounted for in the 2019 financial year. The remaining expense on the scheme was accelerated to the income statement in the 2019 financial year as determined by IFRS 2. The corresponding share-based payment reserve was also reversed to retained earnings, resulting in a net zero impact on retained earnings.

The 2015 Calgro M3 Executive Share Scheme

The 2015 executive share scheme was approved by shareholders in July 2015. 10 215 572 shares were made available to participants of the scheme at a subscription price of R4.08. Only individuals who were allocated share appreciation rights ("SARs"), in the previous cash-settled scheme, and elected to convert at least 75% of their unvested SARs into the new scheme were eligible to participate in the new scheme. 9 518 700 shares were issued to individuals and 696 872 shares were not taken up. The 2015 Calgro M3 executive share scheme was considered to be a modification of the SAR scheme.

Under the 2015 executive scheme, participants were allocated shares in line with the scheme rules and were required to subscribe for these shares at R4.08 per share. There were no performance conditions related to this scheme other than the service periods as outlined below. Shares issued under the scheme could not be sold by participants until the completion of service periods and release dates stipulated in the scheme rules as outlined below. In terms of the scheme rules, in the event that that scheme was to be cancelled or forfeited by the individual, the Company would buy the shares back from the individual at R4.08 plus interest at prime % that the individual incurred on the funding to acquire the issued shares.

The shares were deeply in the money, resulting in the equity-settled shares being valued at intrinsic value based on the 30-day VWAP of R19.27 at the grant date of 29 July 2015.

Total shares made available under the scheme	**10 215 572**
Shares not taken up initially	**(696 872)**
Shares vested	**(1 050 070)**
Shares forfeited	**(696 872)**
Total shares remaining before cancellation	**7 771 758**

Details pertaining to this scheme are presented in the Group's Annual Financial Statements (refer to note 32) and available on the website (www.calgrom3.com).

The total number of shares cancelled by participants on 31 August 2018 amounted to 7 771 758 shares. As per the scheme rules, the total subscription price on these shares was paid back to individuals at R4.08 per share plus interest at prime %. The shares issued to participants under the scheme were also traded back to Calgro M3 Developments Ltd, a wholly owned subsidiary company and are currently held as treasury shares at Group level.

REMUNERATION REPORT (CONTINUED)

Once-off award in lieu of several previous schemes cancelled, converted and forfeited by executive management

As the 2015 scheme was in the money when it was cancelled, the Remuneration Committee and Board has approved a once-off payment to the executive team.

The payment was determined based on a number of factors, including:

- Number of years employed by the Company
- Financial loss due to the share scheme being cancelled
- Contribution towards the Group over the employment term
- Remuneration of peers in the industry
- Incentive to retain executive staff
- Motivation for executives that have embraced the values of the Group over a period of time

No previous long-term share incentive schemes have vested for the participating executives during their employment at the Company. The previous cash-settled scheme (SAR scheme) was converted into the equity-settled 2015 executive share scheme, which is the one that was cancelled during the year. Based on these factors, the effective length of service considered when determining the below settlement, is as follows:

Executive	Number of years, on 28 February 2019, without any prior payment against a long-term scheme
WJ Lategan	10.58
W Williams	7.00
MN Nkuhlu	4.50
WA Joubert	7.16

Based on these factors the Remuneration Committee has determined a once-off payment amount of R25 344 000 for the executive management members that participated in the initial SAR scheme and the 2015 scheme. The amount will be divided as follows:

Executive	Amount before deduction of income tax
WJ Lategan	R9 064 000
W Williams	R4 180 000
MN Nkhulu	R7 920 000
WA Joubert	R4 180 000

The amounts above will be paid to the individuals after year-end, subject to them still being in the employment of the Company on the specified date. Should the employee not be employed by the Company at that date, no settlement will be paid.

It is the intention of executive management to apply the funds to purchase Calgro M3 shares in the open market.

Shareholder engagement and voting

Understanding and being responsive to the interests of various stakeholders, including shareholders, is critical to delivering on Calgro M3's core business strategy.

Calgro M3 is dedicated to responsible corporate governance practices, creating sustainable growth in shareholder value through consistent improvement in earnings, clear growth and expansion of capital, and engaging with its shareholders. Management also engaged with shareholders during the year and in the light of their comments and input have adjusted the meeting fee composition for non-executives and provided a more granular disclosure of the compensation structure.

In line with best practice (notably King IV) and the JSE Listings Requirements, from the 2017 AGM onwards the remuneration policy together with the implementation report (as contained in the annual Remuneration Report) will be tabled for two separate non-binding advisory votes by shareholders. In the event of 25% or more of the shareholders voting against either or both the remuneration policy and implementation report, Calgro M3 will take the necessary steps to engage with shareholders in an effort to ascertain the reasons for their dissenting votes.

Calgro M3 will:

- Extend an invitation to dissenting shareholders in the Securities Exchange News Service ("SENS") announcement with the results of the AGM, for them to engage with Calgro M3 around their reasons for voting against the relevant resolution; and
- The invitation will reveal the manner and timing of engagement, which may include communication via email, telephone calls, meetings, roadshows and other methods of communication.

Calgro M3 will ascertain the reasons for dissenting votes and regularly respond and provide constructive feedback to shareholders' questions, queries and concerns. Where appropriate (in the case of legitimate and reasonable concerns) Calgro M3 may consider amending elements of the remuneration policy to align it further to market practice and shareholder value creation.

Remco shall disclose, from the 2018 financial year onwards, the results of its shareholder engagement. In the event that one or more of the remuneration-related resolutions are voted against by 25% or more of the shareholders, this disclosure will also include:

- With whom Calgro M3 engaged;
- The manner and form of the engagement that took place; and
- The nature of the steps taken by Calgro M3 to address legitimate and reasonable objections and concerns raised by dissenting shareholders.

At the 2018 AGM the result of the non-binding advisory vote on the remuneration policy was:

- For – 100%
- Against – 0%
- Abstention – 0%

Non-Executive Directors’ fees

Non-Executive Directors are remunerated for their membership to the Board and the various Board Committees. As recommended in the Notice of the Annual General Meeting, shareholders are requested to ratify the Non-Executive Directors’ fees for the year at the Calgro M3 Annual General Meeting.

To comply with the requirements of King IV, the Board has instituted rulings that Non-Executive Directors’ fees are split between an annual retainer and an attendance component. The weighting per meeting, per Committee has changed after shareholders’ input. The proposed fees for the 2020 financial year are as follows:

Director	Annual retainer fee 2019/2020	Board Chair	Audit Committee Chair	Any other Committee Chair	Audit Committee meeting attendance	Remuneration Committee, Investment Committee, and Social and ethics Committee meeting attendance	Board meeting attendance
PF Radebe	R261 450	R42 000	–	R31 500	–	R21 000	R25 200
H Ntene	R175 350	–	–	R31 500	–	R21 000	R25 200
RB Patmore	R210 000	–	–	R31 500	R23 100	R21 000	R25 200
BP Malherbe	R175 350	–	–	R31 500	–	R21 000	R25 200
ME Gama	R175 350	–	–	R31 500	R23 100	R21 000	R25 200
GS Hauptfleisch	R175 350	–	R36 750	R31 500	–	R21 000	R25 200

Details pertaining to Non-Executive Directors’ remuneration earned during the year are contained in the tables below and can be referenced in the Annual Financial Statements to note 35.

Restraint of trade

All Executive Directors and Senior Management participating on long-term incentive schemes have a restraint of trade on their appointment, to the effect that for a period of two years from termination of employment, they are not allowed to provide employment services for any competitor that specialises in mixed-use/integrated developments or is in direct competition with any of the business ventures undertaken by the Group.

Independent external advice

The Calgro M3 Remuneration Committee makes use of external advice on matters pertaining to remuneration and benchmarking.

REMUNERATION REPORT (CONTINUED)

Directors' interest in shares

At the date of this report the Directors held the following direct and indirect interests in the Company:

	Direct 2019	Direct 2018	Indirect 2019	Indirect 2018
Ordinary shares				
BP Malherbe	**50 069**	1 050 069	**12 500 000**	12 500 000
WJ Lategan	**5 428 228**	5 336 090	**–**	–
WJ Lategan*	**–**	2 294 214	**–**	–
FJ Steyn	**–**	–	**7 734 949**	8 602 622
WA Joubert	**16 000**	16 000	**–**	–
WA Joubert*	**–**	952 562	**–**	–
W Williams	**183 667**	183 667	**86 666**	86 666
W Williams*	**–**	1 084 815	**–**	–
MN Nkuhlu	**3 926**	3 926	**–**	–
MN Nkuhlu*	**–**	2 046 421	**–**	–

** Shares issued as part of the Calgro M3 Executive Share Scheme have service conditions and trading restrictions associated to them and are disclosed as treasury shares until such time when the trading restrictions are lifted.*

Refer to note 32 for further details on the Calgro M3 Executive Share Scheme. Refer to note 35 for details of the Directors' emoluments.

There were no changes to the Directors' interest in shares between year-end and the date that the financial statements were approved.

Executive Directors' remuneration

Given the financial performance for the 2018 and 2019 financial years, short-term incentive bonus payments to executives was zero. The minimum hurdle being Headline Earnings greater or equal to the prior year (2017 and 2018 financial years respectively). An increase in Headline Earnings was not achieved and as such, no STI bonuses have been accrued or paid in the current year.

The remuneration noted below is for services rendered in connection with the carrying on of affairs of the business within the same group of companies, joint ventures and associates.

	Remuneration and other benefits		
	Guaranteed remuneration	Once off payment incentive#	Total
2019			
WJ Lategan	**3 294 504**	**9 064 000**	**12 358 504**
FJ Steyn	**2 805 533**	**–**	**2 805 533**
WA Joubert	**2 331 460**	**4 180 000**	**6 511 460**
W Williams	**2 434 119**	**4 180 000**	**6 614 119**
MN Nkuhlu	**2 505 155**	**7 920 000**	**10 425 155**
Total Executive Directors	**13 370 772**	**25 344 000**	**38 714 772**
2018			
WJ Lategan	3 024 523	–	3 024 523
FJ Steyn	2 658 248	–	2 658 248
WA Joubert	2 063 279	–	2 063 279
W Williams	2 151 057	–	2 151 057
MN Nkuhlu	2 060 425	–	2 060 425
Total Executive Directors	11 957 531	–	11 957 531

 # Refer to page 62 for details.

Non-Executive directors' remuneration

The remuneration tabled noted below is approved at the AGM annually and in line with best corporate governance practices of splitting remuneration between an annual retainer and an attendance component.

Director	Annual retainer fee 2018/2019	Board Chair	Audit Committee Chair	Other Committee Chair	Audit Committee meeting attendance	Remuneration, Investment and Social and ethics Committee meeting attendance	Board meeting attendance
PF Radebe	**R249 000**	**R40 000**	**–**	**R30 000**	**–**	**R20 000**	**R24 000**
VJ Klein	**R167 000**	**–**	**–**	**R30 000**	**–**	**R20 000**	**R24 000**
H Ntene	**R167 000**	**–**	**–**	**R30 000**	**–**	**R20 000**	**R24 000**
RB Patmore	**R200 000**	**–**	**–**	**R30 000**	**R22 000**	**R20 000**	**R24 000**
BP Malherbe	**R167 000**	**–**	**–**	**R30 000**	**–**	**R20 000**	**R24 000**
ME Gama	**R167 000**	**–**	**–**	**R30 000**	**R22 000**	**R20 000**	**R24 000**
GS Hauptfleisch	**R167 000**	**–**	**R35 000**	**R30 000**	**–**	**R20 000**	**R24 000**

Total remuneration paid to Non-Executive Directors for services rendered as Directors of the Group:

	2019	2018
PF Radebe	**530 333**	458 000
BP Malherbe	**367 333**	308 167
H Ntene	**419 833**	332 667
RB Patmore	**493 000**	407 164
ME Gama	**485 833**	403 167
HC Cameron	**13 125**	401 667
VJ Klein*	**295 833**	289 666
GS Hauptfleisch	**345 458**	–
Total Non-Executive Directors	**2 950 750**	2 600 497
Summary		
Executive Directors	**38 714 772**	11 957 531
Non-Executive Directors	**2 950 750**	2 600 497
Total Directors	**41 665 522**	14 558 028

** Mrs Klein resigned as a Non-Executive Director in February 2019.*

Employee costs

	2019 FY	2018 FY
Salary and wages	**98 270 453**	84 188 828
Executive share scheme expense (IFRS expense)	**43 992 366**	23 794 152
Directors' share-based payment expense	**38 801 335**	15 807 951
Employees' share-based payment expense	**5 191 031**	7 986 201
Share Appreciation Rights expense	**(641 658)**	(569 902)
Share Appreciation Rights Settlement expense	**–**	1 746 933
Directors' emoluments	**41 665 522**	14 558 028
Executive Directors*	**38 714 772**	11 957 531
Non-executive Directors	**2 950 750**	2 600 497
Salary and wages	**183 286 682**	123 718 039
Less: Amounts allocated to qualifying assets (construction contracts)	**(51 236 120)**	(46 541 406)
Total employee costs and share appreciation rights settlement	**132 050 562**	77 176 633

** The Executive Directors' emoluments include only the guaranteed remuneration, cash-settled long-term incentive and the short-term incentive.*

RISK MANAGEMENT

Introduction

Effective risk management processes and procedures are vital for the Group to achieve its strategic and operational goals, particularly in the current environment of change and uncertainty. The Board recognises that risk is intrinsic to the Group's operations. There is, however, a balance to be struck between managing risk and exploiting opportunities.

Refer to the Message from the CEO and FD on page 10 for an outline of six key risks identified by the Group as well as mitigation of the risks.

Risk management process

The Board assesses the Group's operational and strategic business risks with a view to eliminating, minimising or mitigating such risks and their effects on the Group's strategies and operations. Group Exco is responsible for managing risk through the day-to-day roll-out of effective risk management processes that it delegates down to the various management committees.

The Board defines acceptable risk tolerance levels and has tasked the Audit and Risk Committee to continually identify key risks and ensure acceptable risk tolerances through the executive risk control processes across business-specific risk areas. This sets the matrix for regular and extraordinary reporting, if required, by management to the Audit and Risk Committee and the subsequent reporting to the Board.

The Audit and Risk Committee oversees risk management in the Group and relies on the internal and external auditors as well as systems of internal control, to obtain comfort that risks are reduced to tolerable levels. Furthermore, the Audit and Risk Committee oversees cooperation between the internal and external auditors and serves as a link between the Board and these functions.

The systems of internal control are designed to provide reasonable but not absolute assurance as to the integrity and reliability of the Annual Financial Statements, to safeguard and maintain accountability of the Group's assets and to identify and minimise fraud, potential liability, loss and material misstatement while complying with applicable statutory laws and regulations. There are inherent limitations to the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. The system is therefore designed to effectively manage rather than eliminate risk.

The Board receives feedback on the effectiveness of internal controls to mitigate risk via the following:

- Quarterly operational risk management reporting from Exco;
- Assurance provided by the various Board Committees on certain or specific risks and actions taken to mitigate them;
- Audit and Risk Committee feedback from internal and external auditors; and
- Management feedback on the reliability and efficiency of the systems of internal control.

The Board believes the systems of internal control have continued to improve during the reporting period and are enough to minimise the risk of material loss and to provide accurate and reliable reporting. The Board is satisfied that systems of control have provided reasonable but not absolute assurance, and nothing has come to their attention during the year to indicate a material breakdown in the systems of internal control.

Further details on financial risk management, including the Group's exposure to interest rate risk, credit risk and liquidity risk, are contained in note 3 to the Annual Financial Statements.

Management of key risk

Calgro M3 classifies risks that could have a material impact on the Group into the categories of: Operations, Financial, Reputation and Strategic. The risks listed below are the top six risks identified and are grouped according to probability and impact within the Group and include company specific actions that are implemented in order to mitigate these risks.

The below table should be read in conjunction with the "Our key risk items and the way we mitigate risk" analysis in the Message from the CEO and FD on page 10.

GROUP VALUE ADDED STATEMENT

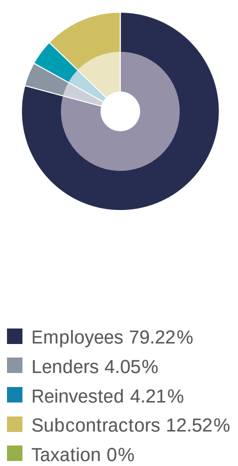
	2019	2018	2017	2016	2015
Revenue	**997 064 528**	1 742 602 162	1 554 679 657	1 204 063 379	932 204 729
Less: Cost of materials, facilities and services	**(841 720 350)**	(1 445 773 397)	(1 198 172 735)	(900 892 036)	(754 318 891)
Value added	**155 344 178**	296 828 765	356 506 922	303 171 343	177 885 838
Other income	**36 538 480**	12 921 627	16 599 999	19 465 682	8 520 994
Share of profit on joint ventures	**14 188 053**	9 560 505	6 269 280	67 233 693	86 826 674
Total wealth created	**206 070 711**	319 310 897	379 376 201	389 870 718	273 233 506
Distributed to					
Employees – salaries, wages and other benefits*	**183 286 682**	123 718 039	122 654 097	149 699 004	90 283 593
Subcontractors – labour only	**28 960 166**	34 922 929	20 408 293	11 400 118	10 660 461
Government – company taxation	**(25 304 411)**	50 948 964	63 176 484	46 090 117	22 519 972
Net finance (income)/costs	**9 360 687**	(12 269 138)	1 924 616	(11 874 468)	2 478 797
Maintain and expand the Group					
▸ Profits retained	**8 417 224**	120 806 675	170 132 841	193 184 722	145 629 072
▸ Depreciation, amortisation and impairment	**1 350 363**	1 183 428	1 079 869	1 371 225	1 661 611
Total wealth distributed	**206 070 711**	319 310 897	379 376 200	389 870 718	273 233 506

Numbers above are based on IFRS reported results.

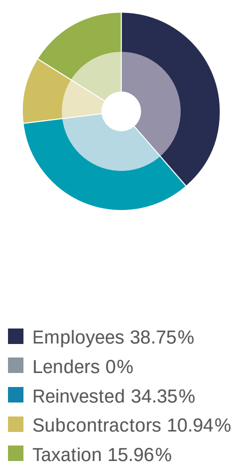
* *Includes the cancellation of the 2015 Executive Share Scheme (IFRS accounting) together with the once-off payment to executives.*

Distribution of wealth

2019



2018



GENERAL INFORMATION

Calgro M3 Holdings Limited
Incorporated in the Republic of South Africa
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Share code: CGR
ISIN: ZAE000109203

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Published
10 May 2019

Transfer secretaries
Computershare Investor Services

Bankers
First National Bank
Standard Bank
Nedbank

Auditors
PricewaterhouseCoopers Inc.

Sponsors
Grindrod Bank Limited

Secretary
I April

Directors

FJ Steyn	Executive
MN Nkuhlu	Executive
W Williams	Executive
WA Joubert	Executive
WJ Lategan	Executive
BP Malherbe	Non-Executive
GS Hauptfleisch	Independent Non-Executive
H Ntene	Independent Non-Executive
ME Gama	Independent Non-Executive
PF Radebe	Independent Non-Executive
RB Patmore	Independent Non-Executive

Preparer
The financial statements were internally compiled by M Esterhuizen CA(SA) under the supervision of WA Joubert CA(SA).

Level of assurance
These financial statements have been audited by our external auditors PricewaterhouseCoopers Inc. in accordance with the applicable requirements of the Companies Act 71 of 2008.

CALGRO M3

www.calgrom3.com