CALGRO M3
Group

2020

Integrated Annual Report

Building legacies. Changing lives

Durbanville Memorial Park

Contents

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

ESG Report 2020	Corporate Governance Report 2020
Annual Financial Statements 2020	King IV™ Application Register

About this report

The report is guided by:

King IV Report of Corporate Governance™ for South Africa, 2016	Global Reporting Initiative ("GRI") G4 Sustainability Reporting Guidelines including, where possible, the Construction and Real Estate Sector Supplement*	Companies Act No. 71 of 2008 (as amended)	JSE Listings Requirements

* *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 2020 report composition

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 for the year under review:

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

The financial statements are prepared and presented in accordance with International Financial Reporting Standards ("IFRS") and the Companies Act, No. 71 of 2008 (as amended).

Scope, boundary and assurance

The collective of all the documents above for the year ended 29 February 2020 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 2019 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 qualitative 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.

About this report (continued)

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.

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.

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

Preparer

The financial statements were internally compiled by P Perumalswami CA(SA) and TW Graaff 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.

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 2020 Integrated Annual Report and has evaluated its preparation and presentation accordingly. In the opinion of the Board, the report provides a fair and balanced account of performance, strategy and value creation of the Group as well as addressing material matters pertaining to the long-term sustainability of the Group and the impacts thereof. This report was approved by the Board on 18 May 2020 and signed on its behalf by:

Pumla Radebe
Chairperson

Wikus Lategan
Chief Executive Officer (CEO)

Waldi Joubert
Financial Officer (FD)

Ralph Bruce Patmore

Dr Mdu Gama

Hatla Ntene

George Hauptfleisch

Lynette Ntuli

Themba Baloyi

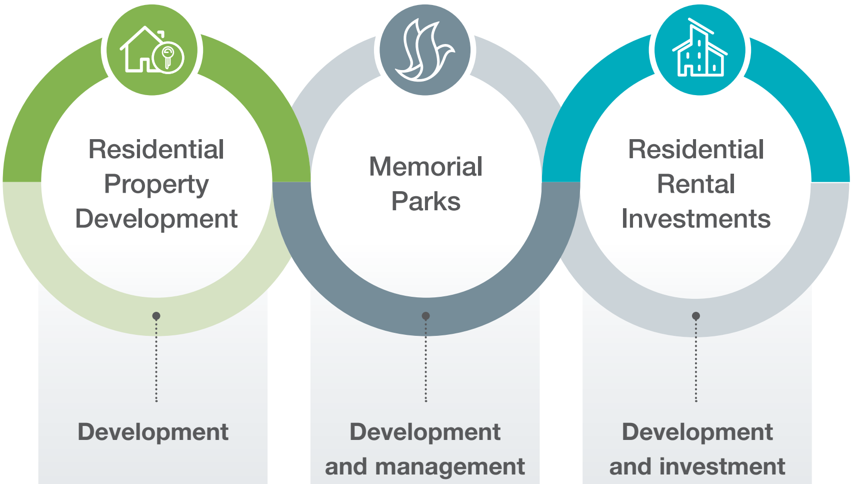
Manda Njongonkulu Nkuhlu

Wayne Williams

18 May 2020

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.

Our Group's positioning and business model provides us with the ability to adapt to the demands and challenges of the marketplace, including the ever-evolving social, economic, political, environmental and now also health issues. Our agility to navigate between areas enables us to realise our strategy of extracting multiple sources of revenue and profits from businesses and opportunities, which will result in an improved liquidity blend and margin over time. In the current environment we are focused primarily on the low to middle income private sector.

Calgro M3 investment case

Calgro M3 has been listed on the JSE Limited since 2007 in the Construction and Materials sector. Calgro M3 specialises in Residential Housing Developments, Rental Investments and Memorial Parks with sustainability at the core of our business.

Who we are and what we do (continued)

Our investment case is based on the following:

Strong pipeline	Strong liquidity
Low fixed overheads	In process of restructuring debt with a two-year maturity holiday

Calgro M3 is responsible in its approach to developments, ensuring water conservation and harvesting, a concerted effort to move towards Energy Conserving Homes, as well as greening as much of the development as possible to enhance the environment and contribute to a change in lifestyle

Solid knowledge of development needs in line with Government's objectives of providing housing to all South Africans within a secure environment which is accessible to places of work as well as the opportunity to create wealth	A massive demand exists in South Africa for quality, affordable and well-built housing	Demand for quality, secure and tranquil Memorial Parks

Vigilant about sustainability and corporate governance	Flexibility and agility to be able to service various markets

The Calgro M3 investment proposition

- Making a meaningful and sustainable difference in the lives of South Africans
- Different and unique product offering
- Strong financial position restored
- 24-year track record made up of quality outputs and stable growth
- Turnkey integrated residential and rental developments as well as memorial parks
- Committed to sustainable business growth
- Focused on meeting financial, social and environmental targets
- Ability to swiftly adapt to changing market demands creating flexibility

MESSAGE FROM THE CEO AND FD

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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 strategies that were implemented, provides information on our financial performance and the rationale as to why changes were made to certain projects.

Nasrec Memorial Park

Overview of the year

Cash generated from operations R464.2 million

Headline earnings per share increased by 108.7% to 1.77 cents profit per share

Cash on hand R255.1 million

Enhanced focus on efficiencies and sales in the Memorial Parks business

Strategic disposals of certain projects under way

Attained United Nations Global Compact advanced level status

ISO 14001:2015 and ISO 45001:2018 certification achieved

Management bought a further 1.2% (1 743 428) of issued shares in support of Company strategy

South Hills development won the United Nations ("UN") Sustainable Cities and Human Settlements award

Net debt to equity 1.04 : 1

We are pleased to report that good progress has been made to turn the business around, with cash generated from operations increasing by 55.6% and net cash generated from operating activities increasing by 69.9%, enabling the Group to settle, on a net basis, R52.7 million in financing activities, and still being able to increase cash balances by 108.0% to R255.1 million. No retail, commercial, project or rental property sales are included in these numbers. These disposals are expected to provide additional liquidity in the 2021 and 2022 financial years.

Through the timeous implementation of various cost cutting and business rightsizing initiatives, the Group managed to reduce its fixed monthly expenses, thereby enabling it to withstand the current challenging economic climate.

The Group is positioned to generate sufficient cash flow from operations to settle any debt maturities that fall due. It does not intend to invest in capital intensive projects while the environment or business is constrained. The Group is optimistic that it is ideally positioned to benefit from any upswing in the local economy, which will further be boosted should Government press ahead with its long-touted plans of ensuring investment in infrastructure projects. With this in mind, the new Frankenwald project has three years remaining on the option period before the land must be paid for.

The Group has reached a stage where management has the opportunity of making beneficial long-term decisions in the interest of the Group's long-term strategy, as opposed to short-term crisis-related decisions.

Successes during the year include:

- Construction of the Fleurhof and South Hills substations is under way with an anticipated completion date of January 2021 and November 2020, respectively, delayed due to Covid-19;
- Evidence of strong cash flow generation from operations to support the turn-around strategy implemented;
- Top empowerment award received in recognition of contribution to growth and sustainability;
- The Sustainable Cities and Human Settlements Award received from the UN; and
- Secured the Frankenwald development on a four-year option agreement of which there is three years remaining.

Strategy

Our strategy is aimed at enabling the extraction of multiple sources of cash flow 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. This will then enable us to fulfil our mantra of ***Building legacies, changing lives***.

Medium to long-term strategy

(1) Targeted return on equity ("ROE") of 30% over the medium to long-term
(2) Equal profit contribution from each of the businesses
(3) Securing annuity income stream sufficient to cover all operating expenses for the Group

Goals over the medium-term

- Return to a 30% ROE in line with strategy;
- Consistent, predictable cash flow from the Memorial Parks business to stabilise lumpy cash flows originating from the Property Development business;
- Continuous reassessment to determine optimal timing to reinvest in the Residential Rental Investment business;
- Ensure long-term sustainability; and
- Secure additional pipeline projects with no or limited immediate impact, on the Group's liquidity – commencement after the roll-out of our existing pipeline.

Goals over the short-term

- Cash preservation and liquidity of balance sheet;
- Debt maturity restructure (see specific targets below);
- Maximise cash generation and roll-out of the existing project pipeline;
- Continued focus on variable cost model;
- Greater brand awareness and the creation of an aspirational brand; and
- Ensure the Calgro M3 team remains passionate about serving the people of South Africa by ***Building legacies, changing lives*** while staying true to our core principles.

Debt capital restructure

- Restructure debt with limited to no capital maturities in the next 24 months:
  - This was already well progressed pre Covid-19; and
  - Endeavour to secure an early settlement clause for a portion of this debt
- Decrease net debt to equity to:

Date	Target
by 28 February 2021	**0.90:1**
by 28 February 2022	**0.75:1**
by 28 February 2023	**0.60:1**

  - Cash liquidated from the following to be utilised for decreasing debt:
    - The sale of various commercial and retail stands;
    - Sale of the residential rental portfolio; and
    - Partnering with third-party developers to fast track cash conversion on the mid-to-high cluster portfolio.

Any additional capital available, once these targets have been achieved, will be utilised for:

- Creation of a larger cash flow buffer for unforeseen events;
- Working capital; and
- Opportunity capital, should extraordinary opportunities arise.

Variable cost structure

Cost containment was a major focus area for the year. The fixed cost base had grown disproportionately over the past few years when measured against the Group's performance in a strained market, requiring management to reassess this. The focus was to reduce the fixed cost base, at the same time ensuring better efficiencies. The Calgro M3 variable cost model has always been one of the Group's strengths. However, with the economic down-turn certain deficiencies in the model were exposed which required correction. Although restructuring is not always easy or pleasant, the steps taken by management were necessary to ensure long-term sustainability. The variable costing model will be closely monitored in future to ensure that it remains functioning optimally.

Actions taken

- Outsourcing of construction (this has reduced fixed monthly cost by approximately R5 million, with a further reduction of R1 million once the last in-house construction projects close);
- Reduction in non-essential overheads;
- Professional departments outsourced and only key talent retained internally to manage external consultants; and
- Closure of Cape Town office and City of Johannesburg CBD sales office to ensure centralisation of functions.

Strategy (continued)

Variable cost model in action

Until such time that more positive economic fundamentals are in place, these will be the focus areas for Calgro M3

Calgro M3 remains interested in a rental portfolio and will buy back in, similarly when economic fundamentals improve

Residential Property Development

- Remain focused on smaller transactions and limit client exposure
- Consistent monthly handovers across all projects and provinces, to limit exposure at any point
- Only accept bulk deals on a monthly construction draw-down progress-payment basis, to strengthen cash flow
- Limit houses/units under construction at any given stage to below 2 800 for the 2021 FY, 3 500 for the 2022 FY, and 4 500 for the 2023 FY
- Focus on a maximum of three to four provinces at a time

Memorial Parks

- Consistency and predictability in sales to support Group cash flow, underpinned by targeted marketing campaigns to enhance sales
- Optimising sales force and process
- Implementation of technology to support the sales process and create efficiencies through the mining of data collected
- Continued with hands-on support from Group Exco
- Grow market share in selected provinces

Residential Rental Investments

- Dispose of all existing rental units either via bulk or individual sales with proceeds utilised for debt settlement

Risks and mitigation strategies

Risks are part of a business and at Calgro M3 risks that could impact operations are carefully and actively monitored in the short, medium and long-term. As a management team we remain cognisant of the impact of the broader operational environment and the vital role it plays in performance objectives.

Risks are monitored and updated regularly to help, not only the Board, but also the executive management team, in guiding day-to-day decision making.

In this feedback to stakeholders, we report on the top six most poignant risks. Given the severe and immediate risk that the Covid-19 pandemic poses, this is included in the risk register.

Risks and mitigation strategies

Covid-19, an immediate and long-lasting threat

The effects of Covid-19 have been widely publicised and both the Board and management acknowledge the seriousness of the current situation and the threat the pandemic holds for the Group. Due to the nationwide lockdown ordered by the President, all of Calgro M3's operations have come to a standstill, except for the Memorial Parks business, which is considered an essential service. The risks associated with the pandemic have and will continue to have a direct impact on operations, financial outlook and strategic planning going forward. While the severity of the lockdown may be gradually alleviated, the country is a long way from returning to "business as usual".

The Calgro M3 response

Our immediate response to the pandemic was to reduce and minimise the immediate challenges faced by staff, contractors, and clients, by issuing safety and hygiene products and procedures to these groups. The Calgro M3 health and safety team worked tirelessly to align health and safety measures to this specific challenge and guidance from health authorities continues to be closely monitored.

We continuously address the short-term cash flow management challenges and cash resilience issues for the immediate future and will continue to do so until forecast ability improves. As a management team, we accept that the new-normal for business will be vastly different from what we were used to. We have in place a risk-based plan on how business operations can return to full capacity as circumstances evolve and the after effects of the virus become clearer.

While this is a precarious time for the South African economy, opportunities arise in every scenario and we believe that the pandemic has given us a new way of reassessing business and operations to benefit from working more effectively and efficiently.

Stakeholders impacted

A housing shortage with land invasion implications

Due to an ever-present shortage of housing in South Africa the risk for not only land invasions but also illegal squatting in completed units remains present. Unfortunately, this has a direct impact on operations and profitability, when sites are closed, work halted and the invasions legally dealt with, before work and legal occupations and handovers are able to resume.

During the 2019 financial year, Calgro M3 dealt with illegal invasions of RDP and CRU units in Fleurhof, half-built units in Scottsdene and an attempt of land invasion at South Hills.

The Calgro M3 response

We pride ourselves on our vision to ***Build legacies, change lives*** and one way to mitigate land invasions in our developments is to further enhance the communication and relations with the surrounding communities to share the positive impacts of our developments with these communities through job creation and a safer environment for families to flourish and grow in.

In partnership with local government and the private sector, we are actively working to eradicate the housing shortage which will decrease exposure to land invasions. Exposure to fewer areas creates the ability to better focus on the specific needs of the particular communities we operate in and reduces possible invasions while at the same time, positively impacting the communities through the developments and amenities Calgro M3 puts into place.

The safety of our people on site as well as the community is of utmost importance to us. We have increased security and surveillance on respective sites.

Stakeholders impacted

Cash flow and liquidity

The Group has experienced working capital constraints due to various factors, from additional security and damages relating to land invasions, to the standing time costs for developments with a combined cost of circa R100 million.

Cash flow pressure was further compounded by construction delays at various sites caused by these challenges.

A further financial risk is bond providers not refinancing funding that matures. Uncertainty and sustainability concerns of the construction sector, the impact of Covid-19 on the country, coupled with the country downgrade by rating agencies are all factors causing uncertainty in the funding space and making bond holders reassess refinancing.

The Calgro M3 response

Calgro M3 has strict budget control, cash flow monitoring and working capital preservation measures in place. We prioritise the completion of existing projects over that of securing new projects and have implemented and continue to review prudent cash allocations between businesses and projects that have different cash flow cycles.

Furthermore a centralised cash flow control function is in place to allow for flexible allocation across the various projects.

Stakeholders impacted

Impact of macro environment

While Covid-19 will not only impact the global economy but have a detrimental effect on the South African economy, it is not the only factor to consider when dealing with the macro environment. This, along with the continued political uncertainty and the recent downgrade to junk status will place further strain on the economy, creating not only economic pressure but also consumer pressure, directly impacting Calgro M3. The main threat to our business is the effect these macro-economic factors will have on the availability of end-user finance.

The Calgro M3 response

While many of the risks are outside of management's control, regular reviews and updates of economic and affordability data are closely monitored with respect to any considerations made for new business and project investments. We are very aware of the impact the macro-economic conditions have on our operations and the considerations of these conditions are always top of mind.

Stakeholders impacted

Risks and mitigation strategies (continued)

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B-BBEE compliance

Calgro M3 committed to the empowerment of previously disadvantaged groups, with the goal not only to comply with empowerment laws but to go above and beyond the minimum requirements. Our biggest challenge is the identification of suitably qualified senior empowerment management candidates.

The Calgro M3 response

Empowerment is a standard agenda item at every management meeting and is part of our internal culture. As positions in the Group become available and in light of succession planning, the appointment of qualified empowerment candidates on all levels is pursued. In line with this, as a management team, we are committed to the enhancement of training existing staff members and the continuous enhancement of skills and enterprise development.

From a procurement perspective all existing suppliers have been granted a period of three years to empower their businesses and future procurement will be undertaken within specific groups in line with this empowerment plan.

Stakeholders impacted

R S F

Public vs private sector exposure in stringent economic times

Calgro M3 has always maintained a good balance between public and private sector work, however the "too much too quickly" conversion from public to private sector work at the end of 2017 and beginning of 2018, along with the various delays experienced, placed the Group in a position where it had to rely on Government payments to ensure continued operations.

The Calgro M3 response

Senior management along with Group Exco, will maintain the hands-on approach of continuously measuring the Group's exposure to public sector work. This will be done against the Board approved tolerance levels and in accordance with the Risk Tolerance Policy.

Stakeholders impacted

Operations

Residential Property Development

With a pipeline of 36 686 opportunities, of which 7 326 are fully serviced, 2 393 (including units where construction was previously suspended) under construction in various stages across seven projects, the Group is now well positioned with sufficient working capital to recommence sales and continue with construction. With enough serviced opportunities available, the commencement of installation of new infrastructure should be forthcoming, once the required Government funding is made available. Public sector budgets for civil infrastructure have been approved on the South Hills, Jabulani and Vista Park developments. The electrification budget for the Fleurhof substation has also been approved. Construction of the South Hills substation has commenced, funded by Standard Bank, Calgro M3's joint venture partner on the project, to ensure no delays on the project.

Total pipeline units

Projects	Completed current year	Under construction	Serviced opportunities	Services underway	Partially/ unserviced	**Total available stands**
Belhar CBD	555	516	2 344	–	–	**2 860**
Bridge City	–	–	–	356	–	**356**
Fleurhof	478	837	1 967	594	–	**3 398**
Jabulani CBD	–	–	384	–	–	**384**
Jabulani Hostels	64	136	125	–	–	**261**
Jabulani Parcel K	–	–	696	–	714	**1 410**
La Vie Nouvelle	29	3	93	–	–	**96**
Mid-to-high Cluster land	–	–	–	–	334	**334**
Scottsdene	142	624	277	–	–	**901**
South Hills	63	214	1 388	566	2 155	**4 323**
Summerset	32	–	–	–	–	**–**
Tanganani Ext 14	–	–	–	–	11 624	**11 624**
Umhlanga Hills	–	–	–	652	–	**652**
Vista Park Ext 3	–	–	–	–	5 320	**5 320**
Vredehoek	–	–	–	–	260	**260**
Witpoortjie	132	63	52	–	4 392	**4 507**
	1 495	2 393	7 326	2 168	24 799	**36 686**

Operations (continued)

Reconciliation between February 2019 and February 2020

Total unserviced units – February 2019	26 313
Disposal of Umhlanga	(752)
Belhar land swop	(210)
Townplanning and layout changes	160
	25 511
Total unserviced units – February 2020	24 799
Total units transferred to being serviced	712
Total units being serviced – February 2019	1 516
Servicing started	712
	2 228
Total units being serviced – February 2020	2 168
Total transferred to serviced	60
Total serviced – February 2019	7 933
New serviced	60
	7 993
Total serviced – February 2020	7 326
Units – Construction started	667
Total under construction – February 2019	3 221
New construction started	667
	3 888
Total under construction – February 2020	2 393
Total units completed	1 495
Total new completions per recon	1 495
Total completed for period per table	1 495

The above numbers exclude the Frankenwald project, which will be undertaken in partnership with a third-party commercial property developer, which is open for acceptance against payment of an annual option fee over the next three years. Frankenwald, situated next to Alexandra and the Marlboro Gautrain station, is the last remaining large-scale property in the greater Sandton area. No material financial commitments are planned for this project for the next three years, while the Group executes on its current pipeline.

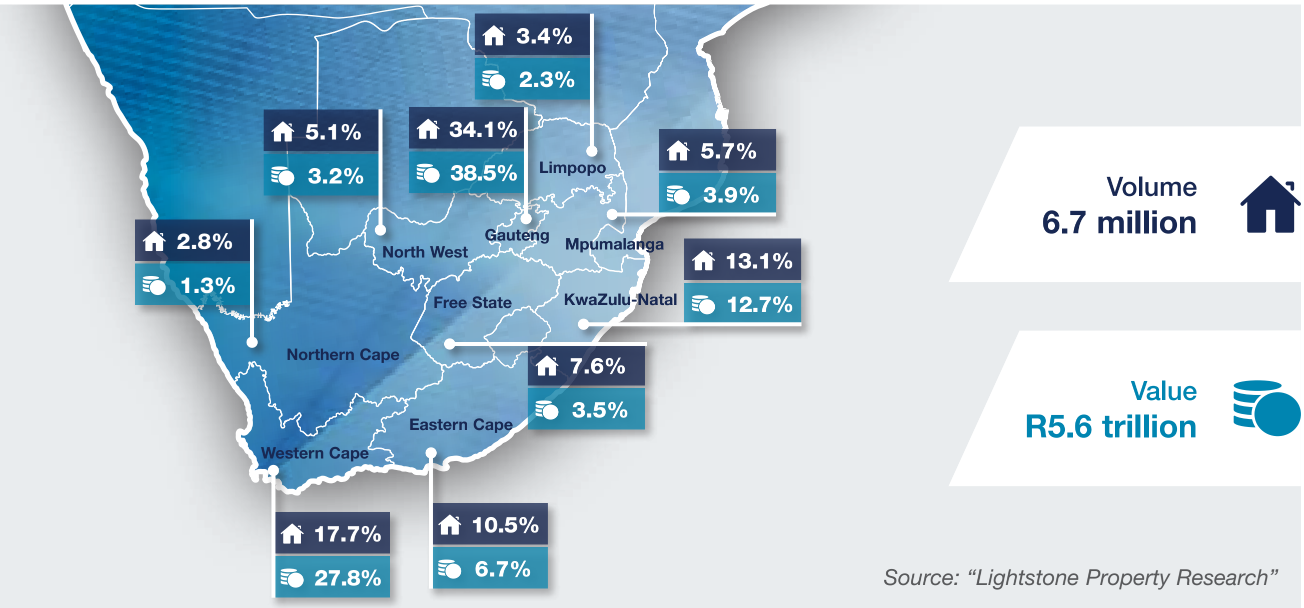
The Residential Property Development business remains the largest contributor to Calgro M3's operations, notwithstanding the fact that this business experienced an extremely challenging year for a third successive year. The start of the financial year was marked by continued land invasions, the lack of availability of electricity at the flagship Fleurhof development and the faltering economy. These challenges led to a conscious decision to preserve liquidity through the suspension of operations on various sites, the implementation of various cost cutting measures, a reassessment of internal structures and implementation strategies, and the restructuring of transactions. One of the major decisions taken was to outsource all future construction on all of Calgro M3's sites, as dealt with below.

Further, and in line with our strategy to limit our focus to no more than four provinces at any given time, a strategic decision was taken to exit KwaZulu-Natal, which has led to the cancellation of the acquisition of one off the properties in Umhlanga. The two remaining properties in KwaZulu-Natal – a property in Umhlanga, will be sold, and a project in Bridge City where construction has commenced, will be traded out across the next 18 months.

In view of our strategic initiatives, the possible sale of the Eastern Cape, KwaNobuhle project is going ahead. If, however, a suitable buyer, with satisfactory terms cannot be found, the Group will continue developing the project. In preparation hereof, various less capital-intensive development alternatives have already been developed for this project, some of which include joint venture opportunities.

Gauteng and the Western Cape will remain the Group's focus areas as they jointly account for 66,3% of the South African property market (in Rand value according to Lightstone Property Research).

Disparity in the residential property market



Source: *"Lightstone Property Research"*

With our clientèle becoming more discerning, our focus remains on enhancing our product offering, while keeping sales prices as low as possible. We strive to deliver products and services to customers that are superior in the market and which hold good value-for-money. Encouragingly, South African banks are still approving 100% bonds, which is allowing Calgro M3 to continue selling existing units, thereby ensuring the business remains operational.

The market we operate in

The Residential Property Development business operates primarily in the lower end of the market where there is a strong demand and need from aspiring buyers, beneficiaries of subsidised housing and tenants that require better living conditions. The number of available quality housing opportunities in the market has not kept track with South Africa's population growth in recent years, resulting in a greater need for quality housing.

In the wake of a volatile year which included an election, rampant load shedding, and the rather controversial issue of land reform without compensation, and now the Covid-19 pandemic, we remain optimistic regarding South Africa's property market.

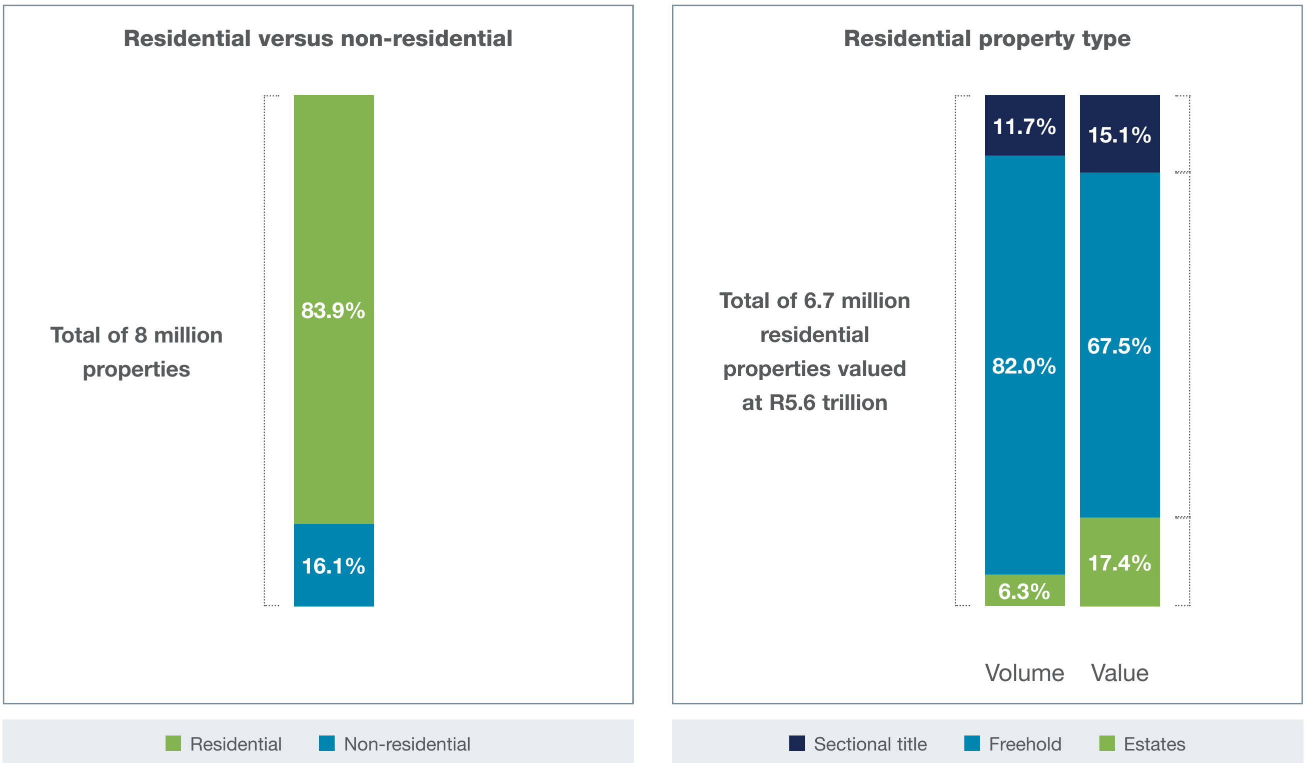
Calgro M3 is expecting a delay before a recovery, and we believe banks will be more cautious towards borrowings for a while. The largest part of our clients are first-time home buyers who will benefit from low interest rates, expressly the recently announced additional interest rate cut to a prime interest rate of 7.75% at the time of writing, and Calgro M3's moratorium on price increases, which should result in a strong and robust market. Most recently banks have shown appetite in the market below R1 million in lending, especially at the 100% bond level, and Calgro M3 is encouraged that banks have realised that there is major need in this part of the market where we operate. We further believe that Government has had a renewed realisation, in the wake of the Covid-19 pandemic, that formalisation of housing must move up the priority spending list. The President is making progress with his fund raising for infrastructure, from which new housing initiatives will also benefit.

In Johannesburg and Cape Town new regulations have been passed to regulate inclusionary housing in all developments. This will not affect the Group's initiatives due to the nature of our primary market. Other developers will, however, have to re-consider their models to become compliant.

Operations (continued)

The below graph is an illustrative summary, compiled by Lightstone Property Research, of the current residential property market. If compared to the graph published in our 2019 integrated report, it is evident that there have been increases in the sectional title and estate sections, with a national decrease in freehold properties. 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.

Total property market



Source: Lightstone Property Research

From a construction cost perspective, Calgro M3 remains confident that it has and will continue to make designs and layout of buildings and site plans more efficient and in so doing will be able to contain building cost increases for most of the year.

Land expropriation without compensation remains a concern. We strongly believe that our sites are less susceptible to this risk due to the nature of the primary market, housing delivery requirements that Calgro M3 fulfils on behalf of Government and the contingency of additional security in place. Numerous interactions with different levels of Government proposing various initiatives to fast track housing delivery, have further reduced the Group's risk in this regard. There are, of course, no guarantees and continuing engagement with Government on this matter will take place.

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

- South African population estimate: 57 224 million
- South African unemployment rate: 29%
- 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

Basic calculation

Number of homes needed as per the above	Less adjustment for unemployment	Less homes already in existence	Shortfall of homes	At the current average national housing delivery estimate of 75 000 over the last few years, it will take 75 years to erode this backlog, and this does not factor in future population growth
17.3 million	**(5.0 million)**	**(6.7 million)**	**5.6 million**	

Memorial Parks

The Group remains bullish on growth opportunities in this business and its ability to match the profitability of the property development business in the medium to long-term. The current areas of focus, in order to achieve this goal, are establishing a national footprint and enhancing sales distribution through various channels.

Revenue for the first six months decreased by 7.3% and actual grave sales by 15.4%, with the business experiencing a notable lag during that period. The following corrective measures were immediately implemented:

- Group Head of Marketing and Sales was deployed to Memorial Parks on a full-time basis with a focus on the delivery of sales through specialised sales consultants;
- Re-branding of the parks was successfully implemented;
- Focused marketing and brand awareness campaigns were instituted; and
- Operational efficiencies, through implementation of a specialised IT system, were optimised.

The above initiatives proved to be successful with the full year revenue growing by 22.8% to R25.7 million, thereby reversing the momentum lost in the first six months, even though this period is traditionally quieter.

Extended payment options are also being offered to clients (at no interest or additional fees), with up to 12 months to pay via debit order. The total sales on deferred payment terms, for which no revenue is recognised until fully paid for, amounts to 140 graves, totalling R3.7 million in sales.

The challenging economic environment is continuing to have an impact on sales performance. The Group is, however, placing emphasis on sales distribution channels to ensure that increased sales momentum is maintained and that potential customers are actively targeted. Memorial Parks continues to be a key expansion area for the executive management team.

Total cash received (including VAT)
(All products excluding rental income)
(R million)

	2020 FY	2019 FY	2018 FY
Nasrec (Gauteng)	**17.3**	14.7	9.0
Fourways (Gauteng)	**8.2**	7.9	5.9
Enokuthula (Gauteng)	**0.4**	0.1	–
Bloemfontein (Free State)	**0.2**	0.2	–
Durbanville (Western Cape)	**8.1**	5.9	–
	34.1	28.8	14.9
Growth	**18.5%**	93.3%	

140 (2019: 305) graves sold have not been accounted for in revenue due to being sold on deferred payment terms. A total of R1.3 million (2019: R2.3 million) has been received on these transactions that are included in the above numbers.

Operations (continued)

Enokuthula Memorial Park, located in Springs, was fully operational from mid-February 2020, after the last development hurdle was resolved. Bloemfontein Memorial Park has been operating at minimum capacity while awaiting the approval of burial rights, which are expected late this year. Currently, the park may only sell ash niches, which does not warrant a full marketing and sales effort. The roll-out of the Witpoortjie Memorial Park was initially planned for late 2020, but will be delayed, pending consistent sales growth and the successful implementation of the new management systems and processes in other parks.

Town planning processes relating to Fleurhof (with an estimated potential of 22 000 graves) and KwaNobuhle (estimated 48 000 graves) has been delayed. This decision will be reviewed later in the year once the other parks start achieving internal growth targets, and additional free cash flow is available. The granting of these rights will create substantial value for the Group from land which is currently carried at zero value on the balance sheet. The Eastern Cape, Tshwane and KwaZulu-Natal acquisitions that were planned for the 2020 and 2021 financial years, have been placed on hold and will also be reviewed later in the year.

The market we operate in:

The South African Cemeteries Association ("SACA") claims municipalities and the Government are not effectively communicating on the lack of burial land. At the second Pan African Conference, it was said that the world's population was more than seven billion and accordingly if burials were the only option, then it would require as many graves within 50 to 80 years.

If that same logic is applied to the South African population, which is in excess of 57 million and growing, then the country is faced with the same situation of having to find 57 million graves within the next 50 to 80 years, while the current shortage is estimated at 8 million graves over the next 15 to 20 years. With the shortage of burial space and operational cemeteries around the country, a slight increase in demand for cremation has been experienced. Burials are a tradition for South Africans, and this is not expected to change soon. Memorial Parks is an alternative to traditional cemeteries, adds value to existing developments, introduces an alternative burial option that is dignified, caters for ash internment in the same secure environment and delivers a service to customers superior to other products in the market.

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 annually. The funeral industry in South Africa is no different and has experienced continuous growth over the past decade, currently estimated at R10 billion per annum, with an estimated 10 000 legal funeral operators as per a study conducted by Business Insider mid-2019.

Besides funerals, there is a flourishing funeral insurance industry growing at an estimated 12% per year, driven by the relative affordability and the great need people have to provide a dignified burial for their loved ones and themselves. The average South African takes out between three to four funeral policies in their lifetime in terms of research undertaken by OUTsurance.

Residential Rental Investments pipeline

The short-term focus is to dispose of all existing rental units and to utilise proceeds from the disposals to settle debt and other possible opportunities as alluded to in the strategic section on this report. The Group is in advanced discussions with third parties to sell units in the Ruimsig and Scottsdene developments as a bulk transaction. In South Hills, free-standing houses are being sold in the open market as the attractiveness of these free-standing houses within security estates in the lower end of the market is increasing.

Once the disposals are complete, Calgro M3 will no longer have a residential rental property portfolio. However, in keeping with the Group's variable cost and risk model, once liquidity returns to a satisfactory level, the residential rental property portfolio will be reestablished.

Key operational challenges

Key operational challenges	Impact	Response
Covid-19	Refer to pages 20 and 21 for specific analysis of the impact and response of Covid-19	
Housing shortages together with a call for land expropriation without compensation	Illegal land and unit invasion/grabs	▸ Currently no illegal invasions ▸ Security in place and 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
Skills shortage	Delivery of products and services	▸ Skills development, subcontractor incubator programme ▸ Internal coaching at management level ▸ Nurturing relationships with small contractors 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
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, throughout the life cycle from preferential procurement through construction activities and client education at handover ▸ 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" vs selling price of products ▸ ISO 14001:2015 certification
Health and safety	Ensuring a safe and healthy work environment	▸ Enforce international health and safety best practices ▸ Ensuring a safe work environment for staff ▸ Ensuring safety of all stakeholders/communities on our projects ▸ ISO 45001:2018 certification
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
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
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

Key operational challenges (continued)

Covid-19

Calgro M3 is no different to other businesses in that it has been severely impacted by Covid-19. However, as with any crisis, the threat of the disease will come to an end, and only when this happens, will we be in a position to fully evaluate the true financial effect that Covid-19 has had on the Group.

Calgro M3 has, taking all available information into account, assessed the potential Covid-19 impact on the financial viability of the company. Also considered was the potential impact on impairment values, valuation, net realisable value, loss contingency and exposure considerations. It is our view, that no further adjustments are required given that the balance sheet is considered undervalued.

The effect of Covid-19 is, however, not only financial in nature. In our risk register Covid-19 is the biggest risk due to the obvious far-reaching impact. However, the Group is in a position where much of the liquidity and macro-economic consequences of Covid-19 has been managed through actions taken by the Group during the two preceding challenging years.

The potential impact of Covid-19 on the Group:

Our market

- Will be significantly impacted by the psychological effect that Covid-19 will have on the South African consumer. The buying of a home or the early purchase of a grave is an immense financial decision, especially for first time buyers and we believe people will be hesitant to make these decisions for a while. We envisage that Calgro M3 will have to be patient until consumer confidence returns;
- Banking sector appetite to continue granting new home loans is a concern; and
- Government has a visible, renewed awareness of the need for dignified housing in South Africa. Our belief is that this will bring about new opportunities.

Our potential customers

- Will be affected in two ways:
  1. The negative effect of Covid-19 on their psyche and their subsequent cautious approach to financial decisions; and
  2. Severe financial pressure affecting their ability to acquire housing or even a dignified final resting place, whether for themselves or family members.

Contractors and on-site activities

- Construction and construction cost management will be affected through the increased cost of improved and additional health and safety requirements at our sites for at least six to 12 months after the pandemic. It is imperative to limit the renewed spread of the disease.

Health of executive directors and key executives

- The Group was proactive in dealing with the dangers of exposure to Covid-19 by directing all executive directors and key staff members to work from home a week prior to the commencement of the national lockdown:
  - Notwithstanding the above, the risk of infection remains, and all key staff members are committed to apply prescribed preventative measures;
  - This risk associated with the infection of key staff members has increased due to the reduction in the management team over the last 18 months, making each management member's role so much more critical.
- A temporary succession plan was compiled for each executive with differing stages of implementation, and which also allows for two or more executives falling ill at the same time.

Employees

- Calgro M3's first responsibility is to its employees, whom are supported and protected, as much as possible, during this time through the following actions:
  - A no-travel policy was implemented pursuant to the first Covid-19 case in South Africa;
  - A work-from-home policy for all key-function staff, with additional and/or required infrastructure and communication costs paid for by the Company, assisting in ensuring that a remote work environment was available whenever possible;
  - Implementation of social distancing in the workplace;
  - Introduction of an employee-lifestyle programme that includes amongst others, the following support functions that Calgro M3 believes might be helpful during this time:
    - Unlimited counselling
    - Financial advice
    - Legal advice
    - Comprehensive trauma response
    - Interactive health portal
- Increased staff communication from executive management and the Health and Safety Department;
- A greater focus on balancing the needs and expectations of the Group with those of employees, thereby reinforcing our message that their well-being is a top priority;
- Educating employees on the benefits of prescribed personal hygiene preventative measures, personal protective equipment, self-isolation, social distancing and all other available protective and preventative measures to ensure health and safety.

The Group is proud that it was able to pay full salaries to employees up to the date of this report. We will endeavour to continue paying full salaries to staff for as long as possible under lockdown conditions.

Effect on operations

- All construction activities were suspended two days before the commencement of the official lockdown to afford employees the opportunity to travel to their families and stock-up with essential supplies;
- Construction activities were suspended due to the lockdown;
- Deeds offices were closed during lockdown, with conveyancers being required to remove all lodged transactions when lockdown commenced. This brought about a major backlog of registrations, which in turn, has resulted in a further estimated six-week delay on the operations of the Residential Development business;
- The most material effect on the Residential Development business' revenue and cash flow will come from the delay in construction that will result in the subsequent delay of unit transfers to end-users for half-year (August 2020) and year-end (February 2021);
- The Memorial Parks business, considered to be an essential services industry, remained operational, within the confines of the lockdown regulations took a decision to reassess burial prices to support individuals and families to celebrate the lives of friends and family in a dignified manner. Prices of memorial plaques, facility hire, and the like have been considerably reduced;
- The necessary authority was delegated to Memorial Parks management to grant a further 10% discretionary price reduction on products, should this be needed from an affordability perspective, and to be assessed on a case by case basis. These initiatives are not only for Covid-19 cases, but for all customers,as we believe, that we need to contribute to all members of the community in these challenging financial times. The above pricing arrangement will remain in place until February 2021.

Debt service ability and source of sufficient liquidity

- The Group believes that it has sufficient financial resources to honour all current and short-term commitments.

The pendulum might not swing back fully once the outbreak has relented and therefore forward-planning is vital. Calgro M3 is actively focusing on the actions, steps and processes required – post the crisis, to ensure that business operations return to full capacity as soon as possible.

The precise impact that Covid-19 had on revenue and profitability is extremely uncertain at this stage as highlighted above. The Group was, however, well-positioned for substantial growth in the current year, and will largely be able to absorb the effect of Covid-19 on its performance.

Social responsibility

The Group chose to participate in various initiatives during Covid-19. Our staff (including those of subcontractors), their families and our clients always remained at the centre of our considerations. During this period, they required our advice, our expertise and our solutions in order to overcome the short-term financial challenges that were being experienced. We undertook the following:

- Donated hand sanitiser, and other safety disposables to our staff and their families;
- Donated hand sanitiser to the Fleurhof community;
- Kept the Florida (Fleurhof), Scottsdene (Cape Town) and Diepkloof (Nasrec) police stations and officers stationed there, healthy with a regular supply of masks, gloves and hand sanitiser;
- Donated hand sanitiser and masks to MES (a charitable organisation operating in the Johannesburg inner city) to assist with their work amongst the homeless;
- Reduced pricing arrangements within Memorial Parks to remain in place until February 2021;
- Annual house sales price increases will not be implemented, to assist with affordability.

Values, vision and mission

Values

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.

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.

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")

While satisfied clients and families are an important measure of our output across our product range, the real value lies in creating an environment in which communities can be uplifted to thrive in. Our goal is to deliver not only high-quality housing and memorial parks, but an environment that empowers and uplifts communities, thereby ***Building legacies, changing lives***:

- From start to finish, 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 even in our most affordable product offerings.
- We create employment, encourage skills and enterprise development, and support entrepreneurship.
- We take care of the environment, rehabilitating and protecting the natural surrounds, thereby 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 risk management is key in our business. 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 financiers, 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.

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 ESG Report 2020 on the website: www.calgrom3.com.

The Group chose to participate in various initiatives during Covid-19. Our staff (including that of our subcontractors), their families, and our clients remain at the centre of our considerations at all times. During this period, they required our advice, our expertise and our solutions in order to overcome the short-term financial challenges that were being experienced:

- We donated hand sanitiser and other safety disposables to our staff and their families;
- We donated hand sanitiser and food across our projects to the community at large;
- We kept various police stations and the officers stationed there, healthy with a regular supply of masks, gloves and hand sanitiser;
- We donated hand sanitiser and masks to MES (a charitable organisation in the Johannesburg and Cape Town inner city) to assist them with the work they are doing with the homeless in the city;
- We decided to reassess the Memorial Park prices to support individuals and families in being able to still celebrate the lives of their friends and family in a dignified manner. Firstly, prices of our memorial plaques, facility hire, and the like have

Environmental, social and governance ("ESG") (continued)

been considerably reduced. On top of this, we delegated the necessary authority to the Memorial Parks management team to be able to grant a further 10% discretionary price reduction on our product prices, should this be needed from an affordability perspective. These initiatives were not only for Covid-19 cases as we believed that we need to contribute to all members of the community in these challenging financial times. The above pricing arrangement will remain in place until February next year.

- We decided not to implement our yearly house sales price increases, to assist with affordability during this time.

In April 2018, Calgro M3 started implementing a formal HSE management system based on international standards that included initiatives such as learning from incidents, a change in safety culture and behaviour, leadership commitment and accountability. Developing a safe and responsible safety culture requires strong leadership, effective supervision and engaged workers and we are proud that we are now ISO 45001 and ISO 14001 certified, making us one of only a few developers in South Africa that embraces these standards in residential construction. The Group remains compliant with the Occupational Health and Safety Act 85 of 1993 and its regulations. The development and enforcement of policies and procedures is undertaken by the health and safety manager with assistance from the environmental manager and their departments.

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.

Please refer to the Corporate Governance Report for information on how the Group approaches governance matters as well as 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 69 of this report.

Witpoortjie

Financial performance

Statement of comprehensive income

The strategic decision to rightsize the business and focus on cash generation has resulted in revenue for the year decreasing by 1.3% to R984.1 million (2019: R997.1 million). The costs associated with these low levels of activity resulted in the gross profit margin being put under pressure, decreasing to 10.2% (2019: 12.9%). This same margin was 7.6% at the end of August, so an increase from the turnaround in the second six months is already visible.

Insurance claims from illegal invasion and subsequent damage of units in the prior year amounting to R16.2 million were recovered from SASRIA, with claims totalling R37.5 million still under assessment. Administrative expenses decreased by 52.1% to R89.1 million (2019: R186.0 million). Employee cost, being the bulk of administrative expenses, decreased by 29.5% to R44.2 million (2019: R62.9 million). Other administrative expenses were also reduced in line with various cost-cutting initiatives.

The decrease in outstanding debtors and contract asset balances resulted in a reduction in the IFRS 9 expected credit loss provision that positively impacted the Income Statement by R25.2 million.

A stringent cash flow position as well as the unbundling of the REIT JV with SA Corporate Real Estate Ltd during the first six months of the year resulted in a decrease of 38.4% in finance income to R30.8 million (2019: R50.0 million). Similarly, finance cost expensed increased by 9.0% due to the standing time related finance cost component and a reduction of interest allocated to the project cost.

Earnings per share

Basic earnings per share ("EPS") increased by 51.8% to a profit of 3.84 cents per share (2019: 2.53 cents per share). Headline earnings per share ("HEPS") increased by 108.7% to a profit of 1.77 cents per share (2019 restated: 20.30 cents loss per share).

Statement of financial position and cash flow

Movements in the loans to joint ventures and associates, inventory and trade and other payable balances are primarily attributable to the unbundling of the Afhco Calgro M3 Consortium joint venture. The unbundling saw an asset split between the parties with the dissolution of the joint venture. Additionally, the Group acquired the Enokuthula Memorial Park as well as land in Umhlanga for R46.3 million and disposed of the La Vie Nouvelle frail care building for R113.3 million (including VAT). The movement in property, plant and equipment primarily relates to the capitalisation of office buildings as a result of the adoption of IFRS 16.

The positive cash generated from operations of R464.2 million resulted from the receipt of outstanding invoices and progress draw recoveries, primarily from the public sector as well as open market transfers on the Belhar project. The net cash generated resulted in the construction contracts and trade and other receivables balances decreasing by 28.9% on a combined basis.

The total loans advanced to joint ventures and associates in the cash flow statement was made to joint ventures and associates for development purposes mostly to the Witpoortjie project amounting to R163.2 million during the year. The Group raised R249 million in new instruments during the year, which includes a R104 million, three-year instrument issued to SA Corporate as settlement of the balance remaining after the asset split pursuant to the dissolution of the joint venture. Notes totalling R157 million matured and were repaid during the year.

Cash and cash equivalents at the end of the year increased 108% to R255.1 million (2019: R122.6 million), which placed the Group in a strong liquidity position with which to start the new financial year. In addition, this healthy balance will enable the Group to weather the Covid-19 storm that is severely impacting the economic environment.

Financial performance (continued)

Net debt/equity ratio
This ratio is calculated as net debt divided by equity. Net debt is calculated as total interest-bearing borrowings less cash and cash equivalents. Equity is calculated as the total equity per the statement of financial position (excluding share-based payment reserve).

	2020 Rand	2019 Rand
Net debt		
Borrowings	**1 062 842 931**	969 195 006
Other interest-bearing borrowings	**30 920 436**	29 293 118
Less: Cash and cash equivalents	**(255 069 163)**	(122 632 997)
	838 694 204	875 855 127
Equity		
Stated capital	**116 255 971**	116 255 971
Retained income	**693 734 868**	690 054 102
	809 990 839	806 310 073
Net debt/equity ratio	**1.04**	1.09

The Group monitors capital repayments and interest serviceability on the basis of its debt service cover ratio ("DSCR"). The minimum allowed DSCR ratio for the Group is 1.2.

Debt service cover ratio ("DSCR")
This ratio is calculated as available cash flow divided by debt service requirement. Available cash flow is calculated as cash generated from/(utilised in) operating activities plus new financial indebtedness incurred plus cash and cash equivalent at the beginning of the year plus the aggregate amount spent on the purchase of property, plant and equipment, purchase of intangible assets, acquisition of business, acquisition of subsidiaries, and loans advanced to joint ventures and associates for investment purposes (capex). Debt service requirement is calculated as interest and fees plus principal repayments.

	2020 Rand	2019 Rand
Available cash flow		
Cash generated from operating activities	**464 208 719**	298 290 312
New financial indebtedness incurred	**145 000 000**	296 000 000
Cash and cash equivalents at the beginning of the year	**122 632 997**	156 722 935
Capex (cash invested in investing activities)	**(158 201 444)**	(298 160 560)
	573 640 272	452 852 687
Debt service requirement		
Interests and fees	**(117 612 227)**	(115 459 090)
Principal repayments	**(180 000 000)**	(193 000 000)
	(297 612 227)	(308 459 090)
Debt service cover ratio ("DSCR")	**1.93**	1.47

Refer to the statement of cash flows for the above balances.

Proparco requirements
The Group monitors capital from Proparco on the basis of its debt service cover ratio and its net debt/equity ratio (as above). The minimum allowed debt service cover ratio for the Group is 1.2 and the maximum net debt/equity ratio of 1.5:1.

Management valuation

Estimated value locked in the balance sheet

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. The current year valuation was adjusted with higher than normal discount rates in the light of the anticipated market effects of Covid-19 and liquidity constraints on bulk purchasers. The selling price of opportunities on projects that have not yet started was reduced from the previous year due to capital constraints and the immediate impact of Covid-19 on the market that will not result in the Group starting these projects imminently.

	Discount applied to market value	Selling price (Excluding VAT) after discount applied (Rand)	Total number of opportunities	Effective number of opportunities*		Value (Rand)
Mid to high-end portfolio:						
– Serviced and unserviced land	40%	349 326	690	690		241 174 475
Low to mid-market portfolio:						
– Serviced opportunities	30%	119 670	9 623	8 674		1 038 024 102
Partially serviced and unserviced opportunities:						
– Projects underway	40%	48 000	9 429	6 803		326 538 173
– Projects not started	50%	15 000	16 944	11 132		166 980 000
						1 772 716 749
KwaNobuhle development to be sold (book value of R97.4 million)						175 000 000
Total value in property portfolio					(A)	1 947 716 749
Construction contracts						
– Infrastructure						29 180 561
– Serviced land						604 502 995
Inventories excluding Memorial Parks						360 324 504
Investment in joint ventures (excluding Residential Rental Investments)						32 688 142
Loans to joint ventures and associates						201 466 505
***Less:* Balance sheet cost of property (land) portfolio**					(B)	1 228 162 707
Management estimated additional value not yet accounted for, locked in the balance sheet					(A)-(B)	719 554 042

** 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.

Based on this valuation as well as the valuations included in the last two integrated annual reports, the executive have personally invested R6.4 million in acquiring shares in the Company during the last nine months. The executives have acquired 1 743 428 shares (1.2%) in the issued share capital of the Company.

Where to from here?

As we are working from home offices writing this letter, in a time when business is closed for most South Africans, and although mathematicians and statisticians are running numbers and forecasts, the reality is that no one knows what the remainder of the 2020 year and even beyond will look like. It is one thing receiving the green light that lockdown is over, but a completely different situation to face the reality of the long-lasting effect this will have on South Africa. The challenges are not only Covid-19 related but extend to downgrades to sub-investment grade by Moody's, followed by a further downgrade by Fitch in the same timeframe, paving the way for an almost certain prolonged recessionary or even digressionary period.

In light of this uncertainty, we will continue to demonstrate that the business is resilient and able to withstand the challenges of a suppressed economy, policy uncertainty, international health crisis and any other uncontrollable factors that come our way. We believe the Group has increased liquidity sufficiently over the past couple of months to be able to weather the storm. We will continue focusing on cash flow generation without expensing same on other places and in doing so, will remain dedicated to revenue and profit generation.

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.

Memorial Parks is set to benefit from an even bigger market share with our value offering now entrenched at a level above other cemeteries in South Africa, and with more management focus being placed on this business than before.

We remain committed to the long-term goal of equal profitability from each of the businesses, but over the short-term the focus will remain on ensuring sustainability of the Group. We will remain hands-on in our approach and will ensure optimal capital allocation at all times. We will continue to focus on smaller transactions at lower margins, where capital invested can be turned around in nine to 12 months, rather than major bulk transactions where the hand-over periods are often in excess of 24 to 30 months and capital is tied up for too long.

We will continue to investigate alternative uses for some of the mid to high-end land parcels to improve cash generation. The sale of the retail and commercial properties within our projects will be a focus area towards the end of the year/early 2021 after the immediate effects of Covid-19 has started to wear off and investments are increasing.

Thank you

First and foremost, we would like to thank each employee, client and stakeholder for their continued support. Even during the Covid-19 pandemic, you as our staff did not shy away from your responsibilities and have contributed immensely to the Group through this trying time. We also wish to thank our management teams for remaining committed and loyal despite the challenges and negative sentiment towards the business. Their dedication enabled us to withstand the challenges of an exceptionally difficult year. We would also like to thank the Board members for their continued guidance, wisdom and support.

To our shareholders, we trust that this letter provides clarity and comfort in the business' ability to carry itself through difficult times, without having to lean on shareholders for assistance or having to resort to "fire-sale" processes.

Lastly, we would like to thank the family members of all Calgro M3 employees for their support and understanding, without which the continued progress that the Group is making would not have been possible.

We as the Calgro M3 team will survive and thrive again – ***"Building legacies. Changing lives"***.

Wikus Lategan
Chief Executive Officer

Waldi Joubert
Financial Director

18 May 2020

THE OPERATIONS OF CALGRO M3

2

CALGRO M3
Group

Calgro M3 specialises in the Residential Property Development, Memorial Parks and Residential Rental Investments providing innovative, cost efficient solutions of the highest quality across these businesses.

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

Going forward the Residential Rental Investments business is suspended in line with the Group's strategic initiative to liquidate its current rental portfolio to settle debt, thereby ensuring sustainability in the current poor economic climate.

The operations and the risks associated with these businesses are discussed in this section, together with their respective pipelines.

South Hills

Business model supported by a turnkey approach and our capitals

Establishing sustainable business practices begins by recognising the broader social and environmental 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 and variable 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

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 (outsourced)
5. Marketing and sales
6. Transfer to end user (Freestanding houses and bulk deals)
7. Construction (outsourced)
8. Transfer to end user (Multi-storey units)
9. 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 (outsourced)
- Marketing and sales
- Holistic burial and remembrance services
- Maintenance

Outputs

Products

- Residential Property Development
- Residential Rental Investments (temporarily suspended)
- Memorial Parks

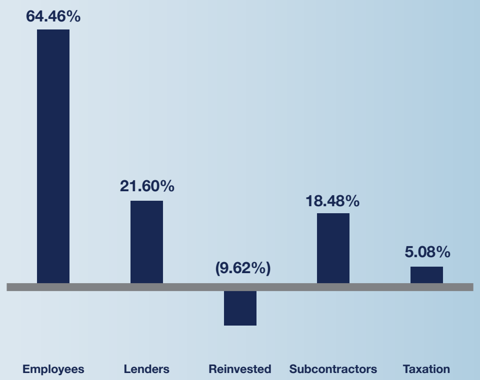
In order to ensure

- Housing delivery
- Assisting Government in service delivery
- Providing a dignified final resting place
- Community development
- Client satisfaction
- *"Building legacies. Changing lives."*

Outcomes

- Zero fatalities
- Health and safety ISO certification in place
- Memorial Parks and Residential Property Developments pipeline R20.9 billion
- Reduced debt
- Evaluated strategic disposals
- 2 393 opportunities under construction
- 7 326 serviced opportunities
- Diversified products offering

Value creation for stakeholders 2020



Business model supported by a turnkey approach and our capitals (continued)

Changes to the residential property development business model during the year

During the year the Group underwent a major restructuring process, the aim of which was to realise an improved risk-based, though profitable structure. This included determining whether to retain the in-house construction division or to outsource construction requirements. In doing so, consideration was given and analysis done on the relationship between size, risk, fixed cost, dedicated staff, flexibility, cost of construction management and the development business' performance. A research study of 80 US real estate developers on relevant strategic management literature and the results of an experimental survey showed that there was no significant difference in performance between firms that performed construction activities in-house as opposed to those where it was outsourced. It further showed that the impact of construction strategy on performance may occur through its effect on size, while size was negatively associated with performance. In addition, among the smaller firms, the ones that outsourced construction, outperformed those that retained construction in-house. Findings suggest that the scale of operation of the industry is such that even large development firms have too small a market share to take advantage of vertical integration of construction. The question we had to ask ourselves was, if this was true in the US and several other parts of the world, why would the same not apply to us?

We further analysed the risk of carrying high overheads during challenging times compared to the potential upside (ie higher margins) when the Group operates at optimum capacity, as well as the "lumpiness", and cyclical nature of the development business. To our great discomfort we found that although we thought we were generating an additional 10% construction margin (3% on the total package) we were, in effect, only making an additional 4% to 5% on the construction or 1.5% on the total package at optimal construction capacity. This was due to the fact that major construction-only companies are far more efficient when building at scale.

Taking all of this into account, a strategic decision was taken to close down the in-house construction division over a 12 to 18 month period through a staggered approach, with affected employees being provided the opportunity of being absorbed by the Group's newly appointed external contractors, thereby limiting job losses.

We are pleased to report that the process is ahead of schedule and all in-house construction should be closed down by end October 2020.

Belhar

Guiding principles that set us apart

Building legacies, changing lives.

Calgro M3 has operated as a residential property developer since 1995. In 2015 the Group ventured into the development of Memorial Parks. Calgro M3's market is driven by the need for housing and burial sites. For all of the above there is a dire shortage in South Africa. Across the spectrum of products there is an underlying fundamental that Calgro M3 will ensure quality products, which enhance lifestyles and allow for dignity.

What does this mean?

Calgro M3 is driven in its purpose to deliver quality products and services to South Africans in segments where there are fundamental shortages. By building truly integrated developments which have access to transport, clinics, shopping centres, education, day care, rain water harvesting and many more benefits, the lives of people are improved and dignity restored.

Social consciousness

In all that we do, we ensure that our social consciousness is in the right place. Our homes for sale or rent are quality built, in areas where housing shortages exist, close to modes of transport, with access to educational facilities, with sufficient green areas and walkways and play areas for children. Importantly, our homes also conform to various environmental standards where we install water reticulation and rainwater harvesting, gas and solar for heating geysers and a final build that is as socially conscious as possible.

What does this mean?

At Calgro M3 our mantra of ***Building legacies, changing lives***, rings true and is the foundation of all that we do. It is not only ourselves that are proud of our achievements, but external recognition for what we do abounds.

Positioned for growth

We are positioned to grow the developments and memorial parks businesses in the medium-term. Although the establishment of the rental business is being suspended for the short to medium-term, we believe that we remain well positioned to grow a business of this nature in future.

What does this mean?

All funding on balance sheet is unsecured and managed through a central treasury function. Our gearing has to adhere to strict covenant levels imposed by external funders as well as internal tolerance levels. All funding raised on the debt capital markets or elsewhere are done from reputable financial organisations.

Sustainability through a comprehensive project pipeline

Our pipeline is R20.9 billion, made up as follows: 91% Residential Property Development and 9% Memorial Parks. These properties and memorial parks are located across provinces in South Africa and provides a good risk mix.

What does this mean?

Our national footprint is able to support our underlying principle of reducing the housing and burial shortage in South Africa.

Residential Property Development

Fleurhof

Typical illustration of Calgro M3 project locations and amenities

Page over

11 322 Residential units

3 Places of worship

11 Schools and crèches

7 Business sites

2 Filling stations

33 Parks

Residential Property Development (continued)

Fleurhof

Page over

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.

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.

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

- Key professional services retained in-house;
- Internal marketing and sales capacity; and
- Specialist external contractors used for construction and infrastructure development to ensure a variable cost model.

The above functions ensure a practical and cost-effective turnkey solution for clients. Flexibility across all lines of business ensures that a cost-effective model is maintained. The model further provides for dedicated enterprise development, on-site training and the use of more than 50% local labour on sites by contractors. Through the delivery of quality affordable products, Calgro M3 remains a preferred development partner for the private and public sector, maximising value creation for stakeholders. 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.

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.

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.

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) Targets income earners < R3 500 pm Move into CRU if monthly earnings > R3 500 pm	The community residential unit ("CRU") programme comprises subsidised rental units owned by the public sector Targets income earners < R7 500 pm Move to next housing segment depending on increased income level > R7 500	Social housing is a rental or cooperative housing option of subsidised rentals owned by non-profit social housing institutes Targets income earners < R15 000 pm Move to next housing segment if monthly earnings > R15 000 Subsidy risk taken by social housing company, not Calgro M3	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 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 Subsidies to the individual ranging from R27 960 to R121 626, depending on income level Targets income earners < R22 000 pm	Full and sectional title residential units aimed at homeowners in the bonded market regulated by the Financial Services Charter ("FSC") Targets income earners > R22 001 pm	Full and sectional title residential units aimed at homeowners in the bonded market, outside the FSC Targets income earners > R30 000 pm

Residential Property Development (continued)

Highlights, challenges and outlook

Please refer to the CEO and FD report on page 13 for a detailed analysis of highlights and challenges experienced by the Residential Property Development business in the 2020 financial year.

Residential Property Development pipeline

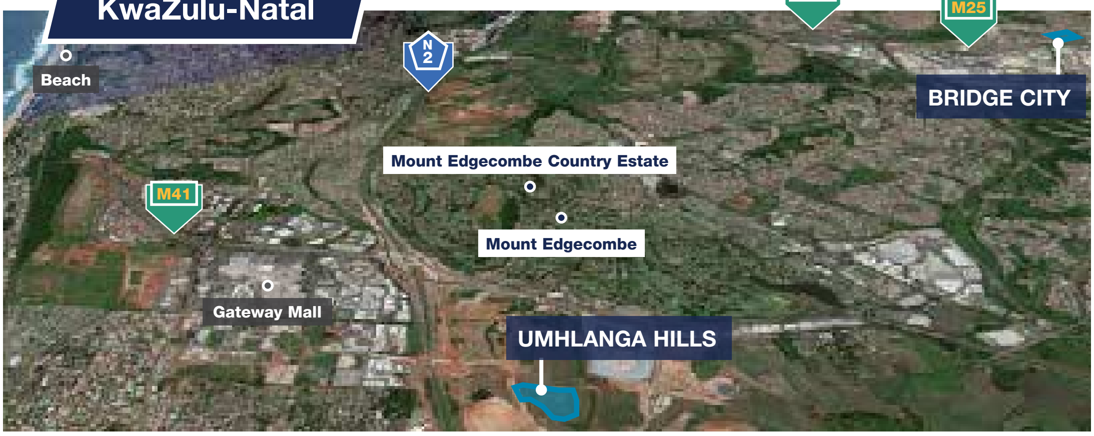
Project	Municipality	Region – Province	Government/ Private	Progress update	Number of units/ remaining units	Anticipated turnover for remaining units (Rand)
Belhar CBD	City of Cape Town	Western Cape	Private	Under development	2 860	1 143 173 497
Bridge City – Fixed price contract	eThekwini	KwaZulu-Natal	Private	Under development	356	132 665 217
Fleurhof	City of Joburg	Gauteng	Private/Public	Under development	3 398	2 108 390 368
Jabulani CBD	City of Joburg	Gauteng	Private/Public	Under development	384	127 192 982
Jabulani Hostels	City of Joburg	Gauteng	Private/Public	Under development	261	97 569 267
Jabulani Parcel K	City of Joburg	Gauteng	Private/Public	Under development	1 410	443 262 269
La Vie Nouvelle	City of Joburg	Gauteng	Private	Under development	96	207 022 035
Mid to High Cluster land	City of Joburg	Gauteng	Private	Awaiting town planning approval	334	494 330 435
Scottsdene	City of Cape Town	Western Cape	Private/Public	Under development	901	369 443 520
South Hills	City of Joburg	Gauteng	Private/Public	Under development	4 323	2 634 511 947
Tanganani Ext 14	City of Joburg	Gauteng	Private/Public	Delayed	11 624	4 321 326 661
Umhlanga Hills	eThekwini	KwaZulu-Natal	Private	Delayed	652	581 130 435
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 planned for 2022 FY	260	729 824 561
Witpoortjie	City of Joburg	Gauteng	Private/Public	Under development	4 507	2 064 070 852
KwaNobuhle	Nelson Mandela Bay Metropolitan Council	Eastern Cape	Private/Public	To be sold to third party (excluding memorial park)	–	175 000 000
Total					**36 686**	**18 072 275 512**

Project locations (Development and Memorial Parks)

Illustrations on the locations of some projects in the pipeline

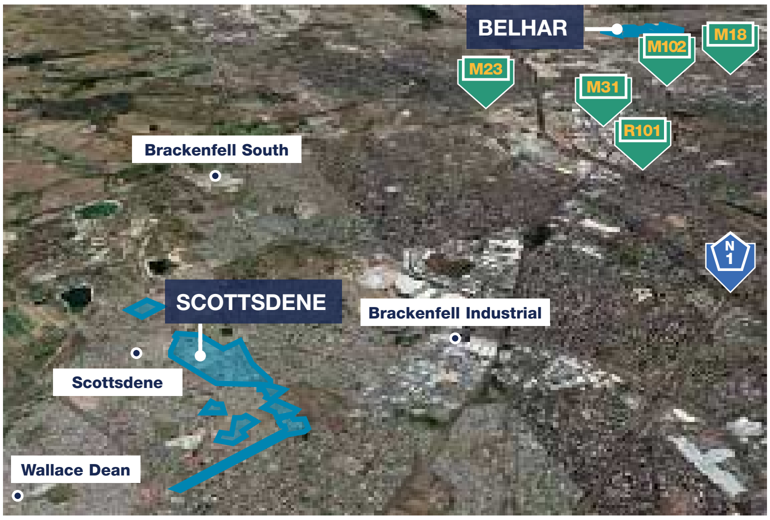
Gauteng

KwaZulu-Natal



Residential Property Development (continued)

Cape Town



Free State

"Location, location, location" is a common mantra in both property development – when buying a home or in the burial industry – when you are burying a loved one.

One of Calgro M3's main priorities, when deciding on developing a specific project, is the focus on the prospective buyer. Choosing the right locality is one of the most important aspects to consider, when buying a new home or identifying a final resting place for oneself or a loved one. The common factors considered are status of the neighbourhood, proximity to facilities and amenities such as schools, shopping centres, medical clinics, police stations, places of worship and most importantly, work opportunities. Other factors, such as accessibility, eg proximity to public transport hubs such as the Gautrain, bus terminals and taxi ranks, and access to major traffic routes and highways, etc, are major considerations. Accessibility to transport routes can also have an impact on an area and residential unit's appreciation potential. Many South Africans must commute relatively far distances to their place of work every day. This factor pushes up demand for properties with easy access to major transport routes and the aforementioned modes of transportation.

Shorter commutes to workplaces: Commuters generally wish to avoid long distance travel to their place of work as this reduces quality family time and increases monthly travel cost, which in turn has a substantial impact on a prospective client's financial ability to purchase a home. Calgro M3's integrated development model serves purchasers with a monthly income varying from R0 to R30 000 per month. Based on public statistics, private transport and or car ownership ranges from 0.1 cars per household up to two cars per household. Therefore, priority regarding locality when assessing a project, is of utmost importance to Calgro M3.

Similarly, the location of a memorial park and the proximity thereof to transport nodes can have a direct bearing on the frequency of grave visits from family and friends of loved ones.

At Calgro M3 we believe that the location ultimately dictates everything about the property. If the property is situated in a prime location, it will command a better selling price from a developer's perspective or produce better equity from a buyer's perspective, as well as offering the client better resale value. Supply and demand are two factors that will always play a role in residential property appreciation. Housing supply in projects with great locations are extremely limited, which increases the demand for housing opportunities in these projects. This careful selection of projects has given Calgro M3 a successful competitive edge within the integrated development market.

Memorial Parks

Nasrec Phase 1

Memorial Parks

All Calgro M3 Memorial Parks are privately owned and professionally managed and maintained. We pride ourselves on providing safe, serene and beautiful surroundings where family and friends can lay their loved ones to rest.

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.

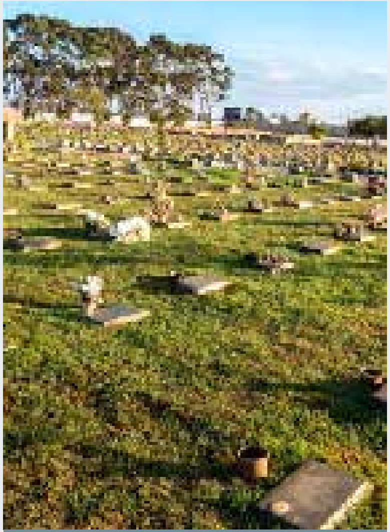
Customer service is a key function of a memorial park business, going hand-in-hand with marketing and sales. Our community initiatives and advertising campaigns are creating an aspiring brand, associated with the preferred final resting places for clients and their families. Potential clients have a constantly growing list of options to choose from and for Calgro M3 Memorial Parks to offer the most effective and compelling products and customer service, the wishes of potential clients and the community at large must be understood. Similarly, with the funeral industry being sensitive in nature, how Calgro M3 Memorial Parks is perceived in the public space is of utmost importance and with that, constant research and the consideration of public needs and opinions have become part of the day-to-day management of the memorial parks business. Given this, the sales and marketing function is focused on word-of-mouth, fully fledged marketing campaigns, trained call centre agents and sales consultants, bulk marketing agreements and relationships with funeral homes and funeral directors.

There is a reason why they call this industry “the funeral SERVICE industry”. It is true, great customer service has always been and will always be one of the most important competitive advantages in any industry and at Calgro M3 we strive to set the benchmark in the funeral service industry. Our parks are filled with symbolism, olive trees resembling life, water creating tranquillity and peace, and green technology and buildings, all environmentally friendly and bringing us closer to mother earth. The parks have fully functional administration and sales offices, 24-hour state-of-the-art security with roaming security guards, manicured gardens, a non-denominational chapel in certain parks, as well as tranquil dams and streams with abundant bird life to ensure a peaceful and serene atmosphere.

To date, the Group has established and acquired five memorial parks of the same or similar standard being Nasrec, Enokuthula, Fourways, Durbanville and Bloemfontein Memorial Parks. In addition to this regulatory approval for the Witpoortjie Memorial Park has recently been received. This will be the first memorial park developed inside one of Calgro M3’s residential property developments. The Group is working on achieving a national footprint, investigating opportunities in KwaZulu-Natal, Tshwane and Ekurhuleni.

Lawn graves

Durbanville Memorial Park



Durbanville Memorial Park

Nasrec Memorial Park

Prices ranging from R13 000 (headstone only) to R50 000 (full memorial in an exclusive location within the park)

Family estates

Fourways Memorial Park

Durbanville Memorial Park

Prices ranging from R85 000 for a two-plot estate to R328 000 for an eight-plot estate

Memorial Parks (continued)

Ash graves


Durbanville Memorial Park


Durbanville Memorial Park

Prices ranging from R8 000 to R60 000 for a Private Ash Grave Estate (five interments)

Please note: All products and prices illustrated above are not available at every Calgro M3 memorial park. Product offerings and prices are unique for each park. Please refer to the Memorial Parks website for up-to-date prices and product offerings per park. (*www.memorialparksbycalgro.com*)

Testimonials illustrating superior product and service delivery

I would like to thank you sincerely and deeply for the way in which you handled the emotionally draining business of the burial of my late father and all the related issues with that. Your communication with us was clear and sensitive and you advised us correctly at every step of the way.

"I want to thank a consultant by the name of Seipati at Nasrec Memorial Park Cemetery. She is very sweet and knows how to handle customers. She makes you feel special and is excellent at providing more details about Nasrec Memorial Park Cemetery. Most people want to come and buy because of her attitude."

"Dear Craig, I would just like to thank you and your team for the effort put in during a very difficult time for both our family and for everyone with the lockdown approaching."

"Following the recent death of my beloved husband, words and phrases such as 'late estate', widow, grave, cremation, undertaker, memorial, grief, 'mourning period', condolences or any term relating to the final end of a loved one's life have just been too surreal to grasp and therefore to come to terms with. My experiences with all the wonderful folk at Durbanville Memorial Park have helped me so much in dealing and coping with the reality of death and life. Although I feel there is never going to be enough that I can do or say to honour the wonderful man John was, I am grateful to my Heavenly Father, my family and to yourselves that I could at least do him the honour of burial in such a special way.

On behalf of my family, I wish to thank you, Pastor Calvin, Janet and all park staff for their contributions to the peaceful and surprisingly pleasant experience of laying my husband's remains to rest."

Highlights, challenges and outlook

Please refer to the CEO and FD report on page 17 for a detailed analysis of highlights and challenges experienced by the Memorial Parks business in the 2020 financial year and what the plans for the future are.

Memorial Parks pipeline

			Other products*		Graves		
Project/Park	Region – City	Province	Quantity	Anticipated project turnover (R'000)	Quantity	Anticipated project turnover (R'000)	Total (R'000)
Nasrec Memorial Park	City of Joburg	Gauteng	2 074	20 470	29 160	934 619	955 089
Fourways Memorial Park	City of Joburg	Gauteng	4 214	44 512	8 938	247 466	291 978
Enokuthula Memorial Park	City of Ekurhuleni	Springs	◆	◆	10 407	183 623	183 623
Bloemfontein Memorial Park#	Mangaung	Free State	31 522	136 045	4 938	62 458	198 503
Durbanville Memorial Park	City of Cape Town	Western Cape	2 638	24 872	6 537	166 634	191 506
			40 449	225 899	59 980	1 594 800	1 820 699

** Other products include: various ash interment solutions, tree memorials and columbarium products.*
 # Anticipated grave density and turnover once burial rights application is approved. No burial rights currently.
◆ No other products currently. To be reassessed in future to utilise certain spaces.

Bloemfontein Memorial Park

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 is a strategic long-term objective for the Group, the Group has initiated the process of divesting from the Residential Rental Investments business in the short-term.

The Group entered this space to secure annuity revenue for use as operating cash. 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 created again in a new project. By establishing a rental portfolio from products within our own residential developments, the Group can enjoy greater benefit from the infrastructure created.

This strategy further aligns with our mission of assisting Government in the eradication of the housing backlog, without exposing the Group to diminished public-sector spend. Many clients are low to middle-income households which benefit from cross-subsidisation that the integrated development model offers.

Calgro M3 has, however, made a strategic decision to temporarily suspend investment into this business due to the capital-intensive nature of the business in an economic environment with limited available capital. The Group has retained its long-term strategic objective of establishing a residential rental portfolio to supply an annuity income stream into the Group as a risk diversification mechanism. The Group will continue to monitor and report on when the business will be re-established.

Outlook

Please refer to the CEO and FD report on page 18 for a detailed analysis of highlights and challenges experienced by the Residential Rental Investments business in the 2020 financial year and the Group's plans with this business going forward.

STATUTORY REPORTS

3

CALGRO M3 Group

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, furthermore, taking into consideration and actioning changes requested by shareholders.

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 as the portion spent on tax.

South Hills

Chairperson's Report

Pumla Radebe Chairperson

To our customers, suppliers and employees, I join the Board and the executive team in thanking you for your continued support of Calgro M3. Your support is greatly appreciated.

Introduction

I am proud to present this report for 2020 – it will be the last time I pen this report as I will be stepping down from the role of Chairperson and member of the Board after the AGM on 26 June 2020. Over the past 13 years it has been my privilege to participate in the growth of the Group, which I am proud to say has prevailed despite some exceedingly challenging times. As I move away from the position, conscious of my length of tenure and the part this plays with respect to good corporate governance practice, I am again reminded of the tenacity of the executive management team in particular, who have truly done their utmost to ensure that Calgro M3 remains a sustainable business.

This year proved to be no less demanding than the last, with the South African economy showing little improvement despite assurances from Government that steps will be taken, and policies introduced to arrest the downward trajectory of the economy and bring about an improvement therein.

Poor economic performance continued to place pressure on consumers, with many South Africans remaining under severe financial pressure. Matters were not made easier, with both the World Bank and the International Monetary Fund cutting South Africa's growth forecast for 2020 – the former expecting the local economy to expand by just 0.9% and the latter revising it down from 1.1% to 0.8%.

It was therefore of some relief that the Budget presented by Finance Minister Tito Mboweni in February did not result in any increases in VAT or personal taxes, as many had thought would happen. However, the resulting increases in the fuel levy of 25 cents per litre, as well as on so-called "sin taxes" will weigh on already-struggling consumers.

Worse still perhaps is the impact on the South African economy of ongoing load shedding, which started again towards the end of the 2019 calendar year and has continued well into 2020. Given the crisis at Eskom, load shedding is not expected to come to an end in the foreseeable future. Moody's had, on the back of this, slashed South Africa's expected growth forecast to just 0.4% from 0.9%. Country downgrades to junk status followed by Moody's, Fitch and Standard and Poor's.

It would also be remiss of me not to mention the impact of the continued uncertainty around land expropriation without compensation, which was intensified earlier this calendar year when a number of prominent members of the ANC made statements that the media interpreted to mean that they want the executive to determine compensation as opposed to the courts. To date, there has been no official statement by the ruling party on this matter, either agreeing with or denying these statements, which has not helped matters.

Of course, one cannot write such a report without a reference to the coronavirus ("Covid-19"), which even at the time of writing, was severely impacting both the global and local economy, as more countries succumb to the virus's advance. A review of management's actions and impacts as they relate to Covid-19 can be found on pages 20 and 21.

With respect to the financial performance of the Group – which you can read about in detail in the CEO and FD's report on pages 6 to 28 – the highlight has been the absolute robustness of Calgro M3's variable cost model, which has allowed the Group to take a flexible approach to restructuring the business over the past year. I am excited about what the future holds for the Group, which will no doubt benefit from any slight uptick in the economy, having done well to restructure and pay down debt in the period under review.

Commitment to governance

Calgro M3 is committed to the highest levels of governance and continues to apply the 16 principles of King IV™. Our King™ Application Register can be found on the Calgro M3 website.

Board changes during the year

During the year under review Ben Pierre Malherbe resigned as a Non-Executive Director of the Company, effective 27 June 2019. Frederick Johannes Steyn, known to all as Derek, also resigned as an Executive Director of the Board effective 30 June 2019, taking early retirement, but remaining available to the Company as a consultant.

I would like to thank both Ben Pierre and Derek on behalf of the Board for their valued commitment and contribution during their tenure as Non-Executive Director and Executive Director, respectively and look forward to their ongoing support and input in future.

On 23 March 2020, Lynette Ntuli and Themba Baloyi were appointed as Independent Non-Executive Directors to the Board. Both come with a wealth of experience in the sectors Calgro M3 service and it is a pleasure to welcome them to Calgro M3. Detailed resumés for each are contained in the Notice of AGM document on our website (www.calgrom3.com).

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

A detailed ESG 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. The Group has successfully completed the external audit process of its internally developed JSE Management System and has achieved certification for ISO 45001:2018 and 14001:2015. I am proud to report that Calgro M3 has maintained its UN Global Compact status of GC Advanced level 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".

It is also worth noting that with respect to remuneration, at the 2019 AGM held on 28 June 2019, both non-binding advisory votes relating to the remuneration policy and the remuneration implementation report, received 99.87% approval from shareholders.

Calgro M3 appointed PSG Capital as its sponsor with effect from 11 November 2019.

Appreciation and looking forward

Thanks go to Wikus and his executive management team once again for the hard work put in over the past year. It took steady hands and sound thinking to navigate yet another challenging 12 months, with their vision for the future and their near-term focus on the issues at hand paying off, often a duality not easy to pair.

To our customers, suppliers and employees, I join the Board and the executive team in thanking you for your continued support of Calgro M3. Your support is greatly appreciated. To the buyers or renters of Calgro M3 properties, and to those people interested in our burial products, thank you for relying on the Group to provide quality housing in our developments or a final resting place in the tranquillity of one of our beautiful Memorial Parks.

To the current Non-Executive members of the Board, I bid you farewell and wish to thank you for your continued support and commitment during my tenure as Chair. I am truly grateful to have been able to serve on the Board with such distinguished, capable and committed individuals.

To the incoming Chair and the new members of the Board, I bid you welcome. May your time with Calgro M3 be rewarding, and may you and the current Non-Executive Board members continue to guide, support, and challenge Wikus and his team, being all that the governing body is intended to be to the benefit of the Group's management, employees, shareholders and other stakeholders.

Pumla Radebe
18 May 2020

Board of Directors

Calgro M3 Board of Directors

Independent Chairperson
Pumla Radebe*

Lead Independent Director
Ralph Patmore

Executive Directors
- Wikus Lategan (CEO)
- Waldi Joubert (FD)
- Manda Nkuhlu
- Wayne Williams
- Derek Steyn◆

Independent Non-Executive Directors
- Mdu Gama
- Hatla Ntene
- George Hauptfleisch
- Lynette Ntuli■
- Themba Baloyi■

Non-Executive Director
- Ben Pierre Malherbe○

Remuneration and Nomination Committee
- Pumla Radebe* (Chairperson Nomination Committee)
- Ralph Patmore (Chairperson Remuneration Committee)
- Hatla Ntene
- Wikus Lategan#

Audit and Risk Committee◇
- George Hauptfleisch (Chairperson)
- Ralph Patmore
- Mdu Gama
- Wikus Lategan#
- Waldi Joubert#

Investment Committee◇
- Ben Pierre Malherbe○ (Chairperson)
- Hatla Ntene
- George Hauptfleisch#
- Wikus Lategan
- Waldi Joubert
- Derek Steyn#◆
- Manda Nkuhlu#
- Wayne Williams#

Social and Ethics Committee
- Mdu Gama (Chairperson)
- Hatla Ntene
- Urvash Kissoon-Singh
- Waldi Joubert#
- Manda Nkuhlu#
- Wikus Lategan#
- Wayne Williams#

Stakeholder Relations
- Wikus Lategan
- Waldi Joubert
- Wayne Williams
- Manda Nkuhlu

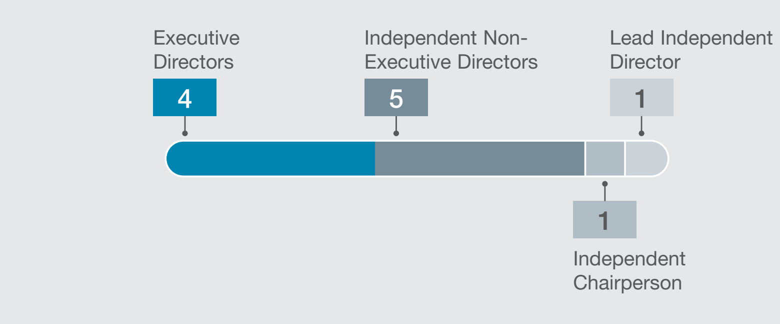
 # Invited to Committee meetings in FY2020. *◆ Derek Steyn resigned on 30 June 2019.* *○ Ben Pierre Malherbe resigned on 27 June 2019.*

◇ *The Board resolved to dissolve the Investment Committee. Matters normally dealt with by the Audit and Risk Committee and the Board of Directors.*

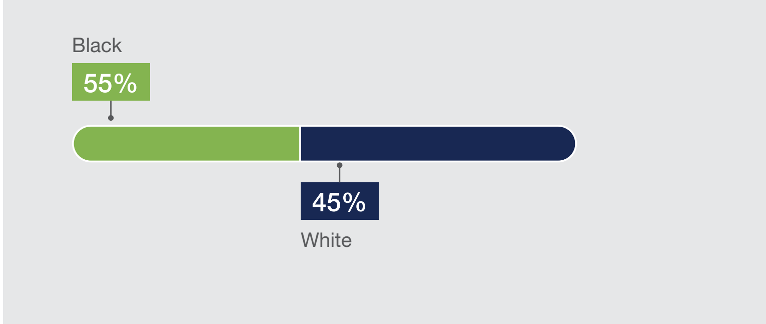
* *As announced on SENS on 24 March 2020, Pumla Radebe will be stepping down as Chairperson and member of the Board after the completion of the Annual General Meeting on 26 June 2020. The board has commenced a process of identifying a suitable replacement and shareholders will be advised as soon as such appointment has been made.*

■ *Appointed 23 March 2020.*

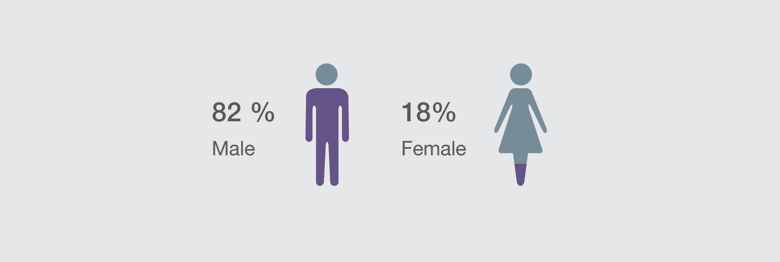
Board composition



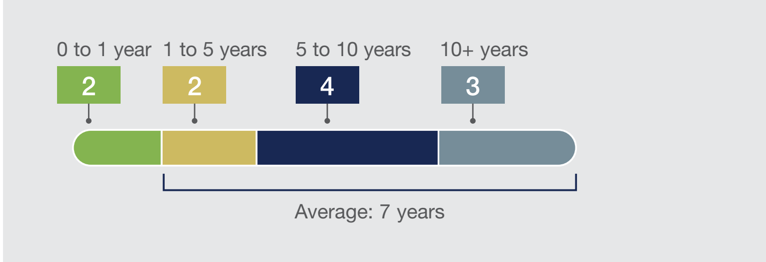
Race



Gender



Tenure



Chairman – Independent Non-Executive Director

Pumla Fundiswa Radebe (64) CD(SA), BA (Social Sciences)

Mrs Radebe is a Chartered Director and a member of the Institute of Directors in South Africa. She is a Non-Executive Director of the Institute of Directors and the Chairperson of its Social and Ethics Committee, a member of the Remuneration Committee and Nominations Committee. She is also a Non-Executive Director of Jasco Electronics Holdings Limited and Chairperson of its Social and Ethics Committee and a member of its Audit and Risk Committee. She is the Chairperson of Khuselo Investments and the Managing Executive of Bungane Development Consultants. Mrs Radebe steps down as Chairperson of Calgro M3 at the AGM to be held on 26 June 2020, with immediate effect.

Skills set
Specialises in social analysis, project planning and management and with more than 20 years' experience at local and regional government level. It is experience such as this which is highly regarded within the Group, given its operational exposure to Government.

Lead Independent Non-Executive Director

Ralph Bruce Patmore (68) BCom, MBL (SBL)

Ralph brings a valuable 10 years' experience in building materials distribution as former CEO of Iliad, as well as a wealth of industrial manufacturing experience, as a former director of Everite Holdings Limited and Group Five Limited. Ralph currently serves as a non-executive director on the boards of ARB Holdings Limited, Mustek Limited, Unicorn Capital Partners Limited and Accentuate Limited.

Skills set
With his vast industry experience, including, but not limited to being a former executive director of Everite, Group Five, Illiad and subsidiaries in Unihold and Malbak, comes a valuable approach to specific industry thinking and expertise.

Board of Directors (continued)

Independent Non-Executive Directors

Dr Mduduzi Edward (Mdu) Gama (51) PhD (Finance)

Mdu holds a PhD (Finance) degree and various management qualifications from South African, US and UK universities. Mdu is currently CEO of Resultant Finance Proprietary Limited and is a non-executive director of Mustek Limited. He is a founder, director and a significant shareholder of various other companies.

Skills set

A doctorate in finance combined with an entrepreneurial flair blends exceptionally well with Calgro M3.

Hatla Ntene (65) BSc (QS), Dip. Con. Econ, Dip. Civ. Eng, PRQS, PMAQS, Pr.CPM

Hatla's qualifications include a Bachelor of Science (Quantity Surveying) degree from the University of Dublin, a diploma in Construction Economics from the Bolton Street College of Technology in the Republic of Ireland and a diploma in Civil Engineering, Lerotholi Polytechnic. Hatla is currently Executive Chairman of Mvua Property Partners and Pulaprop. He is a Non-Executive Director of a listed retail property fund company. Hatla was previously a partner in Farrow Laing Ntene, one of the largest quantity surveyor firms in South Africa. Hatla was also the Property Executive Manager of Propnet (Property Division of Transnet) for three years.

Skills set

Finding a person with 30 years of experience in the property industry is rare and the insight which Hatla provides to the Board is highly regarded. Potential pitfalls are pointed out early to avoid wastage of time and money.

George Hauptfleisch (63) CA(SA)

George is a Chartered Accountant and was a partner at PwC for 30 years. He brings with him a wealth of experience as a registered auditor of listed companies in sectors such as manufacturing, engineering, construction and chemicals, fast moving consumer goods and agriculture. George is a member of the Institute of Directors in South Africa.

Skills set

George joined the Board in 2018, adequately taking on the Chairmanship of the Audit and Risk Committee and sat as a member of the Investment Committee. His wealth of expertise attained in three decades in the audit profession is extremely valuable to Calgro M3.

Lynette Ntuli (36) B Com Acc, CSCM, ACSCL, PDP Real Estate Programme, University of Oxford, UK

Lynette was appointed to the Board on 23 March 2020. She is the Founding Director and Chief Executive Officer of Innate Investment Solutions Proprietary Limited, a professional services firm in the built environment providing property and infrastructure development services and enterprise asset management solutions. Over a 15-year period, Ms Ntuli has gathered diverse experience and specialisation in property and infrastructure development and management; asset management planning and maintenance; strategy and operational development and implementation; real estate transactional and due diligence advisory; and the commercialisation and rationalisation of portfolio assets. Her obvious passion for the property sector, and her entrepreneurial flair will add tremendous value to Calgro M3.

Skills set

A rare find, Lynette has vast practical and academic experience and qualifications to add tremendous input into strategic proposals from executive management.

Themba Baloyi (41) MBA, ACIS, ND CMA, IoDSA

Themba was appointed to the Board effective 23 March 2020. He is co-founder of Sithega, a non-banking financial services business, and prior to this, founded Discovery Insure Limited ("Discovery Insure"), a short-term insurance company launched in 2011. The Discovery Insure work propelled him to win the 2018 All Africa Business Leaders "Entrepreneur of the Year Award". Currently he serves as Chairman on the board of Constantia Insurance Group Limited and is a board member of the Allan Gray Orbis Foundation, Cube Capital and Prescient Empowerment Trust, amongst others.

Skills set

His knowledge of the insurance and financial sectors, parallels with aspects of Calgro M3's own business model, particularly the Memorial Parks business, where Calgro M3 foresees good product diversity and growth opportunities.

Executive Directors

Willem Jakobus (Wikus) Lategan (39) CA(SA)

Wikus joined Calgro M3 in 2008 as Financial Director and was subsequently appointed as Group Managing Director with effect from 1 June 2015, responsible for the overall operational activities of the Group. Wikus served as a member of the SAICA National Members on the Business Executive and is also Chairperson of the SAICA Northern Region and Business Council. He has vast experience in business restructuring and management and became CEO effective March 2017.

Willem Adolph (Waldi) Joubert (34) CA(SA)

Waldi was appointed as Financial Director with effect from 1 June 2015. He is a qualified chartered accountant, having completed his articles with PricewaterhouseCoopers, where he gained vast experience in a variety of industries including manufacturing, construction, insurance and fast-moving consumer goods. Waldi joined the Group in January 2012 as Group Financial Manager.

Manda Njongonkulu Nkuhlu (40) BSc (Honours), MBA

Manda joined Calgro M3 in 2014 having held a number of senior management positions in both the private and public sector. He has been on Group Exco since September 2014, before taking on a larger role as an Executive Director with Board representation from March 2017. Manda was appointed as Managing Director of Calgro M3 Developments, the Residential Development business from September 2017.

Wayne Williams (51) BProc

Wayne joined Calgro M3 in 2012 and was appointed as Executive Director with effect from 1 June 2015. He is a qualified attorney who was in private practice for 20 years, specialising in commercial and corporate law where he obtained extensive experience in commercial transactions and property-related negotiations and acquisitions. Wayne leads all acquisition negotiations.

Company Secretary

Tumi April (37) LLB (UNW)

Tumi was appointed as the Group Company Secretary with effect from 11 May 2016. She assists with various legal matters within the Company and is a qualified attorney with 12 years' experience in commercial and company law, and six years' company secretarial experience.

Remuneration Report

Part 1

Remuneration background, philosophy and strategy

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 resulted in separate management teams appointed for the Residential Property Development business and the Memorial Parks business, 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 2020 financial year, employees received 65.34% of the total wealth created by the Group.

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.

Part 2

Remuneration policy

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 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, 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 to ascertain the reasons for their dissenting votes.

Calgro M3 will:

- extend an invitation to dissenting shareholders via a Stock 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/s; and
- ensure that 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.

The Remuneration Committee shall disclose 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 2019 AGM the result of the non-binding advisory votes on the remuneration policy and the remuneration implementation report was:

	Remuneration policy %	Remuneration implementation report %
For	99.87	99.87
Against	0.13	0.13

Middle and senior management and employees

The Company's target is to remunerate all performing employees between the 25th 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 user allocation, 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 years. External benchmarking takes place every two years. However, in view of the current suspension of executive salary increases (with executives having received their last annual salary adjustment in September 2018), as well as the Group cost cutting initiatives, no review took place in 2019 and no review is planned for 2020.

Guaranteed remuneration

Increases for all management levels as well as staff, are considered and adjusted at our annual increase cycle in September and will again be CPI linked. Exceptions exist as is currently the case with the executives. 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 middle and senior management and employees is 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

Remuneration Report (continued)

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 period longer than five years was implemented during the 2019 financial year (see "Long-term service incentive").

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 general 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. These structures are revisited from time to time to ensure maximum sales performance. 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 to 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 are added to the employee's 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 are 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 are added to the employees' annual leave, taking the leave days up to 21 days (maximum leave days for any staff member) from the 19 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.

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 not being 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 the bonus payment is taken into account). The calculation of the pool is in line with the calculation method of the previous four (4) years.

The bonus pool 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:

If current year headline earning is:						
< 10%	**= equal**	**> 20%**	**> 40%**	**> 60%**	**> 80%**	**> 100%**
compared to previous financial year headline earnings, then the bonus pool is:						
3% – if Group is still profitable after payment of bonus	**6%**	**7%**	**8%**	**9%**	**10%**	**12%**
of the current financial year headline earnings						

Remuneration Report (continued)

In line with the King IV™ principles, the bonus pool has sub-parameters to ensure that executives focus on all elements and aspects of the Group's businesses and not only 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 made as follows:

40% Financial targets

Targets will be based on return on equity ("ROE"), as outlined below. The calculation will exclude any IFRS adjustments on equity, as IFRS adjustments do not give rise to additional equity 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 is calculated as: Opening capital available to be deployed (as per the 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 Investments business – 20% ROE (Total return (including revaluation)/Equity)**
   The Residential Rental Investments business targets apply for the 2020 financial year but will not apply in the following financial years until reinstated by the Remuneration Committee. This is due to the suspension of the implementation of the Residential Rental Investments business in line with the Group's strategic initiative to liquidate its current rental portfolio to settle debt, thereby ensuring sustainability in the current poor economic climate.

Until such time as the Residential Rental Investments business is reinstated, financial targets will be measured against the Residential Property Development business and Memorial Parks business targets only.

Should the ROE target be reached for each of the 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 (4) (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.

The 2019 Long-term Executive Share Incentive Scheme

The current long-term executive share incentive scheme was approved by shareholders at the Group's Annual General Meeting held on 28 June 2019.

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 if certain compounded share price growth targets per share are achieved.

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, 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 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 (4) 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-day 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.

Remuneration Report (continued)

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 (ie 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 respected compounded TSR target is also not reached the following year (as per the following year's 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 Incentive Scheme and settlement

The 2019 Long-term Executive Share Incentive Scheme was implemented pursuant to the voluntary cancellation of the 2015 Executive Share Incentive Scheme, which was brought about in response to the 2019 financial year adjustments to opening retained earnings, resulting from the IFRS 15 and IFRS 9 implementation In view of the negative effect of these adjustments, participants of the 2015 Executive Share Incentive Scheme unanimously agreed to cancel the scheme to unlock the 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.

For further details of the cancellation of the 2015 Executive Share Incentive Scheme and the effect thereof, please refer to the Remuneration Report contained in the Group's 2019 Integrated Annual Report.

Part 3

Remuneration implementation

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 AGM, shareholders are requested to ratify the Non-Executive Directors' fees for the year at the Calgro M3 AGM.

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 and per committee has been revised after input from shareholders. The proposed fees for the 2021 financial year, and which have not been increased from the previous year due to the current economic climate (which is also in line with no increases for executives), are as follows:

Director	Annual retainer fee 2020/2021 R	Board Chair R	Audit Committee Chair R	Any other committee Chair R	Audit Committee meeting attendance R	Remuneration Committee, Investment Committee, and Social and Ethics Committee meeting attendance R	Board meeting attendance R
Chairperson (TBA)	261 450	42 000	–	31 500	–	21 000	25 200
H Ntene	175 350	–	–	31 500	–	21 000	25 200
RB Patmore	210 000	–	–	31 500	23 100	21 000	25 200
ME Gama	175 350	–	–	31 500	23 100	21 000	25 200
GS Hauptfleisch	175 350	–	36 750	31 500	–	21 000	25 200
LS Ntuli	175 350	–	–	31 500	–	21 000	25 200
TP Baloyi	175 350	–	–	31 500	–	21 000	25 200

The fees listed above are excluding value added tax, as may be applicable.

Details pertaining to Non-Executive Directors' remuneration earned during the year are contained in the table above and can be referenced in the Annual Financial Statements to note 35 which can be found on the Company's website.

Restraint of trade

All Executive Directors and senior management participating in 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.

Directors' interest in shares

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

	Direct 2020 R	Direct 2019 R	**Indirect 2020 R**	Indirect 2019 R
Ordinary shares				
WJ Lategan	**6 566 264**	5 428 228	**–**	–
FJ Steyn*	**–**	–	**n/a**	7 734 949
WA Joubert	**16 000**	16 000	**313 490**	–
BP Malherbe*	**n/a**	50 069	**n/a**	12 500 000
W Williams	**378 667**	183 667	**86 666**	86 666
MN Nkuhlu	**100 828**	3 926	**–**	–

* *BP Malherbe resigned on 27 June 2019 and FJ Steyn resigned on 30 June 2019.*

Refer to note 35 for details of the Directors' emoluments. The note can be found in the Annual Financial Statements on the Company's website.

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

Remuneration Report (continued)

Pledged securities

As at 29 February 2020, the following Directors and Non-Executive Directors have pledged securities as collateral for loan facilities:

Director	Ordinary shares pledged	Total facility value (R)	Facility expiry date
WJ Lategan	6 566 264	1 209 978	29 November 2024

No other Directors or prescribed officers within Calgro M3 have pledged securities as guarantee/collateral during the course of the reporting period or at the present date. Should securities be pledged the necessary announcement will be made to the market.

Executive Directors' remuneration

Given the financial performance for the 2018, 2019 and 2020 financial years, short-term incentive bonus payments to executives were zero. The minimum hurdle being headline earnings greater or equal to the prior year (2018 and 2019 financial years respectively). An increase in headline earnings was achieved in the current financial year, but hurdle rates were not achieved and as such, no STI bonuses have been accrued or paid in the current year either.

Executive management agreed to a zero percentage increase in September 2019, when the Group's annual increases were effected.

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 R	Once off payment incentive# R	Total R
2020			
WJ Lategan	R3 376 365	–	R3 376 365
FJ Steyn*	R293 951	–	R293 951
WA Joubert	R2 388 318	–	R2 388 318
W Williams	R2 493 477	–	R2 493 477
MN Nkuhlu	R2 563 107	–	R2 563 107
Total Executive Directors	R11 115 218	–	R11 115 218
2019			
WJ Lategan	R3 294 504	R9 064 000	R12 358 504
FJ Steyn*	R2 805 533	–	R2 805 533
WA Joubert	R2 331 460	R4 180 000	R6 511 460
W Williams	R2 434 119	R4 180 000	R6 614 119
MN Nkuhlu	R2 505 155	R7 920 000	R10 425 155
Total Executive Directors	R13 370 772	R25 344 000	R38 714 772

 # Refer to note 35 of the Annual Financial Statements on the Company's website.
** FJ Steyn resigned on 30 June 2019*

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 2019/2020 R	Board Chair R	Audit Committee attendance Chair R	Other committee attendance Chair R	Audit Committee meeting attendance R	Remuneration, Investment and Social and ethics Committee meeting R	Board meeting R
PF Radebe	261 450	42 000	–	31 500	–	21 000	25 200
H Ntene	175 350	–	–	31 500	–	21 000	25 200
RB Patmore	210 000	–	–	31 500	23 100	21 000	25 200
BP Malherbe	175 350	–	–	31 500	–	21 000	25 200
ME Gama	175 350	–	–	31 500	23 100	21 000	25 200
GS Hauptfleisch	175 350	–	36 750	31 500	–	21 000	25 200

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

	2020 R	2019 R
PF Radebe	558 300	530 333
BP Malherbe	109 667	367 333
H Ntene	421 367	419 833
R Patmore	515 767	493 000
ME Gama	513 167	485 833
HC Cameron	–	13 127
VJ Klein	–	295 833
GS Hauptfleisch	462 617	345 458
Total Non-Executive Directors	**2 580 885**	2 950 750
Summary		
Executive Directors	11 115 218	38 714 772
Non-Executive Directors	2 580 885	2 950 750
Total Directors	**13 696 103**	41 665 522
Employee costs		
Salary and wages	82 965 183	98 270 452
Executive share scheme expense	4 499 565	43 992 366
Directors’ share-based payment expense	4 499 565	38 801 335
Employees’ share based payment expense	–	5 191 031
Share appreciation rights expense	76 838	(641 658)
Directors’ emoluments	13 696 103	41 665 522
Executive Directors*	11 115 218	38 714 772
Non-executive Directors	2 580 885	2 950 750
Salary and wages	**101 237 689**	183 286 682
Less: Amounts allocated to qualifying assets (construction contracts)	(54 346 714)	(51 236 120)
Total employee costs and share appreciation rights settlement	**46 890 975**	132 050 562

** The Executive Directors’ emoluments includes only the guaranteed remuneration and any short-term incentive.*

Risk management

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.

Please refer to the message from the CEO and FD on page 9 for an outline of six key risks identified by the Group as well as mitigation of the risks. Risks and mitigation strategies relating to the impact of Covid-19 are also addressed in the same report.

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 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;
- Assurances provided by the various Board committees on certain or specific risks and actions taken to mitigate these risks;
- 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 in the table contained in the message from the CEO and FD on page 9 are grouped according to probability and impact within the Group and include Company-specific actions implemented in order to mitigate these risks to acceptable levels.

Five-year financial review

	2020	2019	2018	2017	2016
Group income statement					
Revenue	**984 130 486**	997 064 528	1 742 602 162	1 554 679 657	1 204 063 379
Gross profit	**100 609 332**	128 690 047	270 089 275	334 162 888	251 546 652
Gross profit %	**10.22%**	12.91%	15.50%	21.49%	20.89%
Operating profit/(loss)	**47 976 828**	(28 904 065)	149 925 996	228 964 661	160 166 678
Share of profit of joint ventures and associates – net of tax	**(732 541)**	14 188 053	9 560 505	6 269 280	67 233 693
Profit/(loss) before tax	**13 327 604**	(24 076 699)	171 755 639	233 309 325	239 274 839
Basic earnings per share	**3.84**	2.53	93.91	133.06	152.77
Headline earnings per share	**1.77**	(20.30)	90.12	133.08	138.96
Net asset value per share	**636.12**	629.41	911.18	798.35	645.00
Tangible net asset value per share	**511.54**	504.81	786.59	673.73	519.87
Group balance sheet					
Inventories	**719 305 469**	568 498 000	554 397 497	595 989 480	453 093 324
Construction contracts	**945 948 487**	1 279 072 872	1 820 973 990	1 383 647 602	910 736 977
Net cash position	**255 069 163**	122 632 997	156 722 935	240 765 157	80 070 805
Retained income	**693 734 868**	690 054 102	977 014 965	846 079 473	676 923 496
Borrowings	**1 062 842 931**	969 195 006	889 596 522	571 645 578	538 463 465
Trade and other payables	**656 832 209**	896 279 099	814 883 831	847 661 692	342 786 896
Group cash flows					
Cash generated from/(utilised in) operations	**464 208 719**	298 290 313	(205 838 542)	292 068 464	101 798 886
Tax (paid)/refunded	**(17 817 929)**	8 604 779	(1 478 278)	(7 444 473)	(16 878 792)
Net cash generated from/(utilised in) operating activities	**343 376 868**	202 083 075	(276 377 195)	238 183 518	35 511 467
Net cash invested in investing activities	**(158 201 444)**	(298 160 560)	(129 532 596)	(116 890 703)	(140 533 629)
Net cash from financing activities	**(52 739 258)**	61 987 547	321 867 569	39 401 537	54 527 882
Net increase/(decrease) in cash and cash equivalents	**132 436 166**	(34 089 938)	(84 042 222)	160 694 352	(50 494 281)
Cash and cash equivalents at the beginning of the year	**122 632 997**	156 722 935	240 765 157	80 070 805	130 565 085
Cash and cash equivalents	**255 069 163**	122 632 997	156 722 935	240 765 157	80 070 804
Financial ratios					
Return on average shareholders' funds	**0.61%**	0.33%	14.56%	25.53%	32.52%
Return on net assets	**0.66%**	0.15%	10.35%	16.63%	23.57%
Return on net tangible assets	**0.82%**	0.19%	11.98%	19.71%	29.24%
Current ratio	**1.36**	1.33	1.75	1.79	2.00
Market capitalisation at year-end – ordinary shares	**R512 600 276**	R1 121 313 104	R1 591 623 857	R2 332 331 256	R2 313 220 000

General information

Calgro M3 Holdings Limited
Incorporated in the Republic of South Africa
Registration number: 2005/027663/06
Share code: CGR
ISIN: ZAE000109203

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Transfer secretaries
Computershare Investor Services

Bankers
First National Bank
Standard Bank
Nedbank

Auditors
PricewaterhouseCoopers Inc.

Sponsor
PSG Capital

Secretary
I April

Directors

MN Nkuhlu	Executive
W Williams	Executive
WA Joubert	Executive
WJ Lategan	Executive
GS Hauptfleisch	Independent Non-Executive
H Ntene	Independent Non-Executive
LS Ntuli[1]	Independent Non-Executive
ME Gama	Independent Non-Executive
PF Radebe[2]	Independent Non-Executive Chairperson
TP Baloyi[1]	Independent Non-Executive
RB Patmore	Lead Independent Non-Executive

1. *Appointed on 23 March 2020*
2. *As announced on SENS on 24 March 2020, Pumla Radebe will be stepping down as Chairperson and member of the Board after the completion of the Annual General Meeting on 26 June 2020. The Board has commenced the process of identifying a suitable replacement and shareholders will be advised as soon as such appointment has been made.*

Preparer
The financial statements were internally compiled by P Perumalswami CA(SA) and TG Graaff 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 No. 71 of 2008.

CALGRO M3

www.calgrom3.com