# Summarised audited consolidated financial results for the year ended 29 February 2020

**Calgro M3 Holdings Limited**
**(Incorporated in the Republic of South Africa)**
**(Registration number: 2005/027663/06)**
**Share code: CGR**
**ISIN: ZAE000109203**
**("Calgro M3" or "the Company" or "the Group")**

CALGRO M3 Group

*Building legacies. Changing lives*

# Commentary

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

Annual Financial Statements 2020

ESG Report 2020

King IV™ Application register

Integrated Annual Report 2020

- Message from the CEO and FD (recommended reading as this contains a summary of the year under review)
- Strategy
- Risks and mitigation strategies
- Operations
- Environmental, Social and Governance ("ESG")
- Financial performance
- The operations of Calgro M3
- Chairperson's report
- Remuneration report

Corporate Governance Report 2020

- Board of Directors
- Attendance register
- Company Secretary
- Board Committees
- Remuneration and Nomination Committee
- Audit and Risk Committee
- Investment Committee
- Social and Ethics Committee

## 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

## Nature of business

Calgro M3 is a property and property-related investment company that is a market leader in the development of Integrated Residential Developments, development and management of Memorial Parks.

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.

## 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, the cost of construction management and the development business' performance. Research shows, that there was no significant difference in performance between firms that performed construction activities in-house as opposed to those where it was outsourced. Findings furthermore 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. We analysed the risk vs cost benefits and to our great discomfort we found that although we thought we were generating an additional 3% on the total package we were, in effect, only making an additional 1.5% on the total package at optimal construction capacity.

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.

This process should be fully concluded by October 2020.

A similar process of cost reduction was followed with professional departments, closure of all secondary offices, and streamlining of memorial park processes.

## Operational review

### 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 there are 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** |

# Commentary (continued)

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.

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 of 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 over 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).

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.

## 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.*

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 is expected late this calender 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.

## Residential Rental Investments

The short-term focus is to dispose of all existing rental units and to utilise proceeds from the disposals to settle debt. 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.

# Commentary (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;
- 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 place until February 2021;
- Annual house sales price increases will not be implemented, to assist with affordability.

# Commentary (continued)

## Financial review

### 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 for 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.

The Group will utilise cash from operations, the sale of retail, commercial and non-core projects as well as rental stock to achieve the following debt capital targets:

(1) Restructure debt to have limited to no capital maturities in the next 24 months

(2) Decrease net debt to equity to:
- 0.9 : 1 by 28 February 2021
- 0.75 : 1 by 28 February 2022
- 0.6 : 1 by 28 February 2023

## Management valuation

Please refer to page 27 of the 2020 Integrated Annual Report for a valuation performed by management.

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?

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, the Group will continue to demonstrate that its businesses are resilient and able to withstand the challenges of a suppressed economy, policy uncertainty, international health crisis and any other uncontrollable factors that come its way. The Group has increased liquidity sufficiently over the past couple of months to be able to weather the storm and 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. 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 a year, with an estimated 10 000 legal funeral operators as per a study conducted by Business Insider mid-2019.

The Group remains 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 with a hands-on approach to ensure optimal capital allocation at all times. The Group will continue to focus on smaller transactions at lower margins, where capital invested can be turned around in 9 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.

The Group 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 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, the executive would like to thank each employee, client and stakeholder for their continued support. Even during the subsequent Covid-19 pandemic, staff did not shy away from their responsibilities and have contributed immensely to the Group through this trying time.

We thank management teams for remaining committed and loyal despite the challenges and negative sentiment towards the business. Their dedication enabled the Group to withstand the challenges of an exceptionally difficult year.

Thank you to the Board members for their continued guidance, wisdom and support.

To all shareholders, we trust that the information provided in our different annual reports 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"***.

## 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.

# Commentary (continued)

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 resumes for each are contained in the 2020 Integrated Annual Report and the Notice of AGM document on our website (www.calgrom3.com).

Pumla Radebe has indicated that she will resign after the AGM on 26 June 2020. Her resignation at that time will be effective immediately. The board and executive management of Calgro M3 wishes to thank Mrs Radebe for her invaluable contribution as Chairperson of Calgro M3 and wishes her all the best in her future endeavours.

**Wikus Lategan**
*Chief Executive Officer*

**Waldi Joubert**
*Financial Director*

18 May 2020

# Summarised Consolidated Statement of Comprehensive Income

for the year ended 29 February 2020

| | **2020** | 2019 |
|---|---|---|
| **Revenue** | **984 130 486** | 997 064 528 |
| Cost of sales | **(883 521 154)** | (868 374 481) |
| **Gross profit** | **100 609 332** | 128 690 047 |
| Other income | **11 314 454** | 36 538 480 |
| Administrative expenses | **(89 116 268)** | (186 013 859) |
| Other expenses | **–** | (929 221) |
| Impairment gains/(losses) on financial and contract assets | **25 169 310** | (7 189 512) |
| **Operating profit/(loss)** | **47 976 828** | (28 904 065) |
| Finance income | **30 800 370** | 50 005 032 |
| Finance costs | **(64 717 053)** | (59 365 719) |
| Share of (loss)/profit of joint ventures and associates – net of tax | **(732 541)** | 14 188 053 |
| **Profit/(loss) before tax** | **13 327 604** | (24 076 699) |
| Taxation | **(7 984 810)** | 25 304 411 |
| **Profit after taxation** | **5 342 794** | 1 227 712 |
| Other comprehensive income | **–** | – |
| **Total comprehensive income** | **5 342 794** | 1 227 712 |
| **Profit after taxation and other comprehensive income attributable to:** | | |
| – Owners of the parent | **4 918 905** | 3 240 735 |
| – Non-controlling interests | **423 889** | (2 013 023) |
| | **5 342 794** | 1 227 712 |
| **Profit after taxation attributable to:** | | |
| Equity holders of the Company | **4 918 905** | 3 240 735 |
| Earnings per share – cents | **3.84** | 2.53 |
| Fully diluted earnings per share – cents | **3.68** | 2.48 |

# Summarised Consolidated Statement of Financial Position

for the year ended 29 February 2020

| | 2020 | 2019 |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| Investment property | **13 833 550** | 14 019 768 |
| Property, plant and equipment | **27 490 484** | 12 173 346 |
| Intangible assets | **159 655 377** | 159 676 781 |
| Investments | **12 269 982** | 11 089 608 |
| Investment in joint ventures and associates | **152 377 193** | 153 006 235 |
| Deferred income tax asset | **57 263 604** | 43 354 750 |
| | **422 890 190** | 393 320 488 |
| **Current assets** | | |
| Loans to joint ventures and associates | **279 903 888** | 311 393 438 |
| Inventories | **719 305 469** | 568 498 000 |
| Current tax receivable | **1 227 212** | 2 538 268 |
| Construction contracts | **945 948 487** | 1 279 072 872 |
| Trade and other receivables | **130 437 204** | 233 818 424 |
| Cash and cash equivalents | **255 069 163** | 122 632 997 |
| | **2 331 891 423** | 2 517 953 999 |
| **Total assets** | **2 754 781 613** | 2 911 274 487 |
| **EQUITY AND LIABILITIES** | | |
| **Equity** | | |
| Equity attributable to owners of the parent | | |
| Stated capital | **116 255 971** | 116 255 971 |
| Share-based payment reserve | **4 499 565** | – |
| Retained income | **693 734 868** | 690 054 102 |
| | **814 490 404** | 806 310 073 |
| Non-controlling interests | **701 527** | 277 638 |
| **Total equity** | **815 191 931** | 806 587 711 |
| **LIABILITIES** | | |
| **Non-current liabilities** | | |
| Deferred income tax liability | **219 242 079** | 214 300 153 |
| | **219 242 079** | 214 300 153 |
| **Current liabilities** | | |
| Borrowings | **1 062 842 931** | 969 195 006 |
| Loans from joint ventures and associates | **–** | 23 000 000 |
| Current income tax liabilities | **672 463** | 1 912 518 |
| Trade and other payables | **656 832 209** | 896 279 099 |
| | **1 720 347 603** | 1 890 386 623 |
| **Total liabilities** | **1 939 589 682** | 2 104 686 776 |
| **Total equity and liabilities** | **2 754 781 613** | 2 911 274 487 |

# Summarised Consolidated Statement of Cash Flows

for the year ended 29 February 2020

| | **2020** | 2019 |
|---|---|---|
| **Cash generated from operating activities** | | |
| Cash generated from operations | **464 208 720** | 298 290 312 |
| Finance income received | **14 598 305** | 10 647 074 |
| Finance cost paid | **(117 612 227)** | (115 459 090) |
| Tax (paid)/refunded | **(17 817 929)** | 8 604 779 |
| **Net cash generated from operating activities** | **343 376 869** | 202 083 075 |
| **Cash flows invested in investing activities** | | |
| Additions of investment property | **(16 759)** | (50 946) |
| Purchase of property, plant and equipment | **(771 883)** | (2 802 835) |
| Proceeds from the sale of property plant and equipment | **379 635** | – |
| Purchase of intangible assets | **–** | (38 760) |
| Investments in joint venture and associates | **(103 500)** | (119 793 746) |
| Acquisition of business | **(12 500 000)** | (25 500 000) |
| Loans advanced to joint ventures and associates | **(163 238 723)** | (149 974 273) |
| Loans repaid by joint ventures and associates | **18 049 785** | – |
| **Net cash invested in investing activities** | **(158 201 445)** | (298 160 560) |
| **Cash flows (repaid in)/from financing activities** | | |
| Proceeds from borrowings | **145 000 000** | 273 000 000 |
| Repayment of borrowings | **(157 000 000)** | (193 000 000) |
| Loans received from joint ventures and associates | **–** | 23 000 000 |
| Loans repaid to joint ventures and associates | **(23 000 000)** | – |
| Equity paid back | **–** | (25 112 453) |
| Repayment of capital portion on leases | **(1 839 258)** | – |
| Transactions with non-controlling interest | **(15 900 000)** | (15 900 000) |
| **Net cash (repaid in)/from financing activities** | **(52 739 258)** | 61 987 547 |
| **Net increase/(decrease) in cash and cash equivalents** | **132 436 166** | (34 089 938) |
| Cash and cash equivalents at the beginning of the year | **122 632 997** | 156 722 935 |
| **Cash and cash equivalents the at end of the year** | **255 069 163** | 122 632 997 |

# Summarised Consolidated Statement of Changes in Equity

for the year ended 29 February 2020

| | Stated capital | Share-based payment reserve | Retained income | Total | Non-controlling interests* | Total equity |
|---|---|---|---|---|---|---|
| **Balance at 1 March 2018** | 116 255 971 | 74 056 311 | 977 014 965 | 1 167 327 247 | 355 011 | 1 167 682 258 |
| Investment in Calgro M3 Memorial Parks eliminated to equity# | – | – | (56 690 715) | (56 690 715) | 1 935 650 | (54 755 065) |
| IFRS 15 opening balance adjustment to equity◇ | – | – | (318 004 388) | (318 004 388) | – | (318 004 388) |
| IFRS 9 opening balance adjustment to equity◇ | – | – | (32 945 553) | (32 945 553) | – | (32 945 553) |
| Share-based payment expense | – | 43 992 366 | – | 43 992 366 | – | 43 992 366 |
| Share-based payment reserve released to retained earnings | – | (118 048 677) | 118 048 677 | – | – | – |
| Dividend declared□ | – | – | (609 619) | (609 619) | – | (609 619) |
| **Comprehensive income** | | | | | | |
| Profit for the period | – | – | 3 240 735 | 3 240 735 | (2 013 023) | 1 227 712 |
| Other comprehensive income | – | – | – | – | – | – |
| **Total comprehensive income** | – | – | 3 240 735 | 3 240 735 | (2 013 023) | 1 227 712 |
| **Balance at 28 February 2019** | 116 255 971 | – | 690 054 102 | 806 310 073 | 277 638 | 806 587 711 |
| **Balance at 1 March 2019** | **116 255 971** | **–** | **690 054 102** | **806 310 073** | **277 638** | **806 587 711** |
| Change in Accounting policy: IFRS 16 opening balance adjustment to equity◈ | **–** | **–** | **(936 743)** | **(936 743)** | **–** | **(936 743)** |
| Restated total equity balance at 1 March 2019 | **116 255 971** | **–** | **689 117 359** | **805 373 330** | **277 638** | **805 650 968** |
| Share-based payment expense | **–** | **4 499 565** | **–** | **4 499 565** | **–** | **4 499 565** |
| Dividend declared□ | **–** | **–** | **(301 396)** | **(301 396)** | **–** | **(301 396)** |
| **Comprehensive income** | | | | | | |
| Profit for the period | **–** | **–** | **4 918 905** | **4 918 905** | **423 889** | **5 342 794** |
| Other comprehensive income | **–** | **–** | **–** | **–** | **–** | **–** |
| Total comprehensive income | **–** | **–** | **4 918 905** | **4 918 905** | **423 889** | **5 342 794** |
| **Balance at 29 February 2020** | **116 255 971** | **4 499 565** | **693 734 868** | **814 490 404** | **701 527** | **815 191 931** |

* *This relates to the shareholding of the subsidiaries, Calgro M3 Memorial Parks (Pty) Ltd, Belhar Calgro M3 Developments Company (Pty) Ltd, Holm Jordaan GWA (Pty) Ltd, Calgro M3 Procurement Services (Pty) Ltd and Calgro M3 Contractors (Pty) Ltd where the Calgro M3 Group does not hold 100% of the shareholding.*
# *This relates to the remaining share holding purchased in Calgro M3 Memorial Parks Nasrec (Pty) Ltd.*
◇ *This relates to the adjustment for the adoption of IFRS 15 and IFRS 9 standards in the prior financial year.*
◈ *This relates to the adjustment for the adoption of IFRS 16 standard in the current financial year.*
□ *The dividend is payable by Calgro M3 Procurement Management (Pty) Ltd, a wholly owned subsidiary of the Group, to the Calgro M3 Educational Trust, which is not consolidated into the Group as the Group does not have control of the Trust.*

# Summarised Segment Report of the Group

for the year ended 29 February 2020

| | Residential Property Development | Memorial Parks | Residential Rental Investments | Holding Company/ unallocated■ | Total |
|---|---|---|---|---|---|
| **2020** | | | | | |
| **Total segment revenue** | 950 342 471 | 25 692 483 | 8 095 532 | – | 984 130 486 |
| Fleurhof Project | 379 496 553 | – | – | – | 379 496 553 |
| Jabulani Project | 28 379 457 | – | – | – | 28 379 457 |
| Witpoortjie Calgro M3 Development Company (Pty) Ltd | 41 229 720 | – | – | – | 41 229 720 |
| South Hills Development Company (Pty) Ltd | 88 632 014 | – | – | – | 88 632 014 |
| Belhar Project | 229 038 318 | – | – | – | 229 038 318 |
| Third parties | 183 566 409 | 25 692 483 | 8 095 532 | – | 217 354 424 |
| **Combined revenue*** | 1 098 329 583 | 25 692 483 | 8 095 532 | – | 1 132 117 598 |
| Total segment revenue | 950 342 471 | 25 692 483 | 8 095 532 | – | 984 130 486 |
| Revenue of joint ventures and associates | 147 987 112 | – | – | – | 147 987 112 |
| Witpoortjie Calgro M3 Development Company (Pty) Ltd | 52 240 967 | – | – | – | 52 240 967 |
| South Hills Development Company (Pty) Ltd | 95 746 145 | – | – | – | 95 746 145 |
| **Gross revenue** | 950 342 471 | 25 692 483 | 8 095 532 | – | 984 130 486 |
| Point in time | 364 097 085 | 23 505 534 | 8 095 532 | – | 395 698 151 |
| Over time | 586 245 386 | 2 186 949 | – | – | 588 432 335 |
| Revenue | 950 342 471 | 25 692 483 | 8 095 532 | – | 984 130 486 |
| Gross revenue | 924 964 186 | 25 692 483 | 8 095 532 | – | 958 752 201 |
| Reversal of unrealised profit realised adjustment# | 25 378 285 | – | – | – | 25 378 285 |
| Cost of sales | (866 919 573) | (11 840 138) | (4 761 443) | – | (883 521 154) |
| **Gross profit** | 83 422 898 | 13 852 345 | 3 334 089 | – | 100 609 332 |
| Other income | 3 477 007 | 5 563 750 | 2 273 697 | – | 11 314 454 |
| Administrative expenses | (76 382 272) | (7 426 071) | (396 423) | (4 911 502) | (89 116 268) |
| Net impairment losses on financial and contract assets | 27 763 743 | (16 872) | (2 577 561) | – | 25 169 310 |
| **Operating profit/(loss)** | 38 281 376 | 11 973 152 | 2 633 802 | (4 911 502) | 47 976 828 |
| Finance income | 27 841 970 | 156 961 | 1 212 114 | 1 589 325 | 30 800 370 |
| Finance costs◊ | (42 957 844) | (15 076 820) | (6 682 389) | – | (64 717 053) |
| Share of loss of associates/joint venture – net of tax | (732 541) | – | – | – | (732 541) |
| **Profit/(loss) before tax** | 22 432 960 | (2 946 707) | (2 836 473) | (3 322 177) | 13 327 604 |
| Taxation | (18 204 746) | 7 149 500 | 3 214 308 | (143 872) | (7 984 810) |
| **Profit/(loss) after taxation** | 4 228 215 | 4 202 793 | 377 835 | (3 466 049) | 5 342 794 |
| Other comprehensive income | – | – | – | – | – |
| **Total comprehensive income** | 4 228 215 | 4 202 793 | 377 835 | (3 466 049) | 5 342 794 |

# Summarised Segment Report of the Group (continued)

for the year ended 29 February 2020

| | Residential Property Development | Memorial Parks | Residential Rental Investments | Holding Company/ unallocated■ | Total |
|---|---|---|---|---|---|
| **Profit/(loss) after taxation and other comprehensive income attributable to:** | | | | | |
| – Owners of the parent | 3 804 326 | 4 202 793 | 377 835 | (3 466 049) | 4 918 905 |
| – Non-controlling interests | 423 889 | – | – | – | 423 889 |
| | 4 228 215 | 4 202 793 | 377 835 | (3 466 049) | 5 342 794 |
| **Non-current assets** | | | | | |
| Investment property | – | 13 833 550 | – | – | 13 833 550 |
| Property plant and equipment | 18 919 057 | 8 571 427 | – | – | 27 490 484 |
| Intangible assets | 158 960 573 | 694 804 | – | – | 159 655 377 |
| Investments | – | 12 269 982 | – | – | 12 269 982 |
| Investment in joint ventures and associates | 32 583 446 | – | 119 793 747 | – | 152 377 193 |
| Deferred income tax asset | 33 503 781 | 5 732 007 | 3 285 734 | 14 742 082 | 57 263 604 |
| | 243 966 857 | 41 101 770 | 123 079 481 | 14 742 082 | 422 890 190 |
| **Current assets** | | | | | |
| Loans to joint ventures and associates | 267 434 639 | – | 12 469 249 | – | 279 903 888 |
| Inventories | 525 747 341 | 193 558 128 | – | – | 719 305 469 |
| Current tax receivable | 556 190 | – | 671 022 | – | 1 227 212 |
| Construction contracts | 945 948 487 | – | – | – | 945 948 487 |
| Trade and other receivables | 124 729 259 | 5 707 945 | – | – | 130 437 204 |
| Cash and cash equivalents | 244 895 174 | 9 730 310 | 379 565 | 64 114 | 255 069 163 |
| | 2 109 311 090 | 208 998 750 | 13 519 836 | 64 114 | 2 331 891 423 |
| **Total assets** | 2 353 277 947 | 250 098 153 | 136 599 317 | 14 806 196 | 2 754 781 613 |
| **Liabilities** | | | | | |
| **Non-current liabilities** | | | | | |
| Deferred income tax liability | 138 692 911 | 3 317 240 | – | 77 231 928 | 219 242 079 |
| | 138 692 911 | 3 317 240 | – | 77 231 928 | 219 242 079 |
| **Current liabilities** | | | | | |
| Borrowings◇ | 912 423 390 | 97 315 153 | 53 104 388 | – | 1 062 842 931 |
| Current income tax liabilities | 523 138 | 149 325 | – | – | 672 463 |
| Trade and other payables | 562 869 653 | 92 297 312 | 9 309 | 1 655 935 | 656 832 209 |
| | 1 475 816 181 | 189 761 790 | 53 113 697 | 1 655 935 | 1 720 347 603 |
| Total liabilities | 1 614 509 092 | 193 079 030 | 53 113 697 | 78 887 863 | 1 939 589 682 |

* *Combined revenue is the total segment revenue plus the total revenue of joint ventures and associates. The revenue included represents the gross revenue of each joint venture and does not include any inter-group eliminations.*

\# *The unrealised profit adjustment consists of profits that were generated on the development/construction of units to the Afhco Calgro M3 Consortium (Pty) Ltd (REIT JV), in which Calgro M3 had a 49% shareholding historically. The unrealised profit is realised upon transfer of the unit to the end user.*

◇ *The Group allocated borrowings proportionally to each segment based on the total assets per segment.*

■ *Any items that cannot be allocated to specific segments are indicated as all other segments.*

| | Residential Property Development | Memorial Parks | Residential Rental Investments | Holding Company/ unallocated■ | Total |
|---|---|---|---|---|---|
| **2019** | | | | | |
| **Total segment revenue** | 976 144 785 | 20 919 743 | – | – | 997 064 528 |
| Fleurhof Project | 328 778 231 | – | – | – | 328 778 231 |
| Jabulani Project | 51 182 450 | – | – | – | 51 182 450 |
| Witpoortjie Calgro M3 Development Company (Pty) Ltd | 30 813 037 | – | – | – | 30 813 037 |
| South Hills Development Company (Pty) Ltd | 311 934 682 | – | – | – | 311 934 682 |
| Belhar Project | 141 432 832 | – | – | – | 141 432 832 |
| Third parties | 112 003 553 | 20 919 743 | – | – | 132 923 296 |
| **Combined revenue*** | 1 260 672 163 | 20 919 743 | – | – | 1 281 591 906 |
| Total segment revenue | 976 144 785 | 20 919 743 | – | – | 997 064 528 |
| Revenue of joint ventures and associates | 284 527 378 | – | – | – | 284 527 378 |
| Witpoortjie Calgro M3 Development Company (Pty) Ltd | 17 087 540 | – | – | – | 17 087 540 |
| South Hills Development Company (Pty) Ltd | 267 439 838 | – | – | – | 267 439 838 |
| **Gross revenue** | 976 144 785 | 20 919 743 | – | – | 997 064 528 |
| Point in time | 95 137 962 | 18 875 119 | – | – | 114 013 081 |
| Over time | 881 006 823 | 2 044 624 | – | – | 883 051 447 |
| Revenue | 976 144 785 | 20 919 743 | – | – | 997 064 528 |
| Gross revenue | 943 037 634 | 20 919 743 | – | – | 963 957 377 |
| Reversal of unrealised profit realised adjustment# | 41 956 195 | – | – | – | 41 956 195 |
| Reversal of unrealised profit adjustment# | (8 849 044) | – | – | – | (8 849 044) |
| Cost of sales | (861 396 493) | (6 977 988) | – | – | (868 374 481) |
| **Gross profit** | 114 748 293 | 13 941 755 | – | – | 128 690 047 |
| Other income | 2 750 425 | 6 187 178 | – | 27 600 877 | 36 538 480 |
| Administrative expenses | (126 102 802) | (11 312 357) | (17 500) | (48 581 200) | (186 013 859) |
| Net impairment losses on financial and contract assets | (7 189 512) | – | – | – | (7 189 512) |
| Other expenses | (929 221) | – | – | – | (929 221) |
| **Operating profit/(loss)** | (16 722 818) | 8 816 576 | (17 500) | (20 980 323) | (28 904 065) |
| Finance income | 28 972 737 | 98 850 | 19 491 030 | 1 442 415 | 50 005 032 |
| Finance costs◇ | (30 712 278) | (10 215 694) | (18 437 745) | (2) | (59 365 719) |
| Share of profit/(loss) of associates/joint venture – net of tax | 14 696 464 | – | (508 411) | – | 14 188 053 |
| **Profit/(loss) before tax** | (3 765 895) | (1 300 268) | 527 374 | (19 537 910) | (24 076 699) |
| Taxation | 8 298 343 | 3 021 533 | 1 140 271 | 12 844 264 | 25 304 411 |
| **Profit/(loss) after taxation** | 4 532 448 | 1 721 265 | 1 667 645 | (6 693 646) | 1 227 712 |
| Other comprehensive income | – | – | – | – | – |
| **Total comprehensive income** | 4 532 448 | 1 721 265 | 1 667 645 | (6 693 646) | 1 227 712 |

# Summarised Segment Report of the Group (continued)

for the year ended 29 February 2020

| | Residential Property Development | Memorial Parks | Residential Rental Investments | Holding Company/ unallocated■ | Total |
|---|---|---|---|---|---|
| **Profit after taxation and other comprehensive income attributable to:** | | | | | |
| – Owners of the parent | 6 545 471 | 1 721 265 | 1 667 645 | (6 693 646) | 3 240 735 |
| – Non-controlling interests | (2 013 023) | – | – | – | (2 013 023) |
| | 4 532 448 | 1 721 265 | 1 667 645 | (6 693 646) | 1 227 712 |
| **Non-current assets** | – | 14 019 768 | – | – | 14 019 768 |
| Investment property | 3 272 952 | 8 900 394 | – | – | 12 173 346 |
| Property plant and equipment | 158 981 977 | 694 804 | – | – | 159 676 781 |
| Intangible assets | – | 11 089 608 | – | – | 11 089 608 |
| Investment in joint ventures and associates | 33 212 488 | – | 119 793 747 | – | 153 006 235 |
| Deferred income tax asset | 21 430 173 | 2 014 813 | 1 942 495 | 17 967 269 | 43 354 750 |
| | 216 897 590 | 36 719 387 | 121 736 242 | 17 967 269 | 393 320 488 |
| **Current assets** | | | | | |
| Loans to joint ventures and associates | 39 194 324 | – | 272 199 114 | – | 311 393 438 |
| Inventories | 398 577 530 | 169 920 470 | – | – | 568 498 000 |
| Current tax receivable | 1 590 935 | – | 671 022 | 276 311 | 2 538 268 |
| Construction contracts | 1 279 072 872 | – | – | – | 1 279 072 872 |
| Trade and other receivables | 228 439 992 | 5 351 403 | 2 625 | 24 404 | 233 818 424 |
| Cash and cash equivalents | 115 572 312 | 6 488 209 | – | 572 476 | 122 632 997 |
| | 2 062 447 965 | 181 760 082 | 272 872 761 | 873 191 | 2 517 953 999 |
| **Total assets** | 2 279 345 555 | 218 479 469 | 394 609 003 | 18 840 460 | 2 911 274 487 |
| **Liabilities** | | | | | |
| **Non-current liabilities** | | | | | |
| Deferred income tax liability | 219 836 955 | 3 320 314 | – | (8 857 116) | 214 300 153 |
| | 219 836 955 | 3 320 314 | – | (8 857 116) | 214 300 153 |
| **Current liabilities** | | | | | |
| Borrowings◇ | 764 732 071 | 72 896 337 | 131 566 596 | – | 969 195 004 |
| Loans from joint ventures and associates | 23 000 000 | – | – | – | 23 000 000 |
| Current income tax liabilities | 1 593 322 | 341 696 | – | (22 500) | 1 912 518 |
| Trade and other payables | 820 915 583 | 73 971 779 | – | 1 391 736 | 896 279 098 |
| | 1 610 240 976 | 147 209 812 | 131 566 596 | 1 369 236 | 1 890 386 620 |
| **Total liabilities** | 1 830 077 931 | 150 530 126 | 131 566 596 | (7 487 880) | 2 104 686 773 |

* *Combined revenue is the total segment revenue plus the total revenue of joint ventures and associates. The revenue included represents the gross revenue of each joint venture and does not include any inter-group eliminations.*

\# *The unrealised profit adjustment consists of profits that are generated on the development/construction of units to the Afhco Calgro M3 Consortium (Pty) Ltd (REIT JV), in which Calgro M3 has a 49% shareholding that is eliminated on consolidation.*

◇ *The group only allocated specific borrowings to segments.*

■ *Any items that cannot be allocated to specific segments are indicated as Holding Company/unallocated.*

# Notes to the Summarised Consolidated Annual Financial Statements

## 1. Basis of preparation

### 1.1 Statement of compliance

The summary consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for abridged reports, and the requirements of the Companies Act applicable to summary financial statements. The Listings Requirements require abridged reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS") and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34: *Interim Financial Reporting*.

The summary consolidated annual financial statements should be read in conjunction with the Group annual financial statements as at and for the year ended 29 February 2020, which have been prepared in accordance with IFRS as issued by the IASB. The summary consolidated annual financial statements have been prepared on the historical cost basis, excluding investment property and financial assets held at fair value, that are measured at fair value. The accounting policies used are consistent with those of previous annual financial statements, except for the adoption of IFRS 16: *Leases*. The change to the accounting policies impacted by this new standard is described in note 3.

The consolidated financial statements were internally compiled by P Perumalswami CA(SA) and TG Graaff under the supervision of WA Joubert CA(SA). The summary consolidated annual financial statements were authorised for issue by the Board of Directors on 18 May 2020.

This summarised report is extracted from audited information but is not itself audited. The consolidated annual financial statements were audited by PricewaterhouseCoopers Inc., who expressed an unmodified opinion thereon.

The audited consolidated annual financial statements and the auditor's report thereon are available for inspection at the Company's registered office and the company's website at www.calgrom3.com. The directors take full responsibility for the preparation of the abridged report and that the financial information has been correctly extracted from the underlying annual financial statements.

### 1.2 Judgements and estimates

Management made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and the key source of estimation uncertainty were similar to those applied to the Group annual financial statements as at and for the year ended 28 February 2019, updated for the impact of IFRS 16.

## 2. Accounting policies

Note 3 explains the impact of the adoption of IFRS 16 on the summarised consolidated annual financial statements. This note also discloses the new accounting policies that have been applied from 1 March 2019, where they are different to those applied in prior periods.

## 3. Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 on the annual financial statements.

The Group has adopted IFRS 16: *Leases* from 1 March 2019.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 March 2019.

Accordingly, the comparative information for the previous financial year has not been restated – i.e. it is presented as previously reported under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

# Notes to the Summarised Consolidated Annual Financial Statements

## 3. Changes in accounting policies *(continued)*

### IAS 17 Accounting Policy (Old Policy)

**Determining whether an arrangement contains a lease**

At inception of an arrangement, the Group determines whether the arrangement is or contains a lease.

A lease agreement is one whereby the lessor, conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period.

**Leased assets**

Leases of property, plant and equipment that transfer to the Group substantially all the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group's statement of financial position.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

**Lease payments**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance cost and the reduction of the outstanding liability. The finance cost is allocated to each period during the lease term to produce a constant periodic rate of interest on the remaining balance of the liability.

**Definition of a lease**

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4: *Determining Whether an Arrangement contains a Lease* and IAS 17: *Leases*. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applied IFRS 16 only to contracts that were previously identified as leases under IAS 17. The definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 March 2019. At 1 March 2019, the Group identified two leases for office buildings in Johannesburg and Cape Town.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component based on their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

### As a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases (i.e. these leases are on-balance sheet).

However, the Group has elected not to recognise right-of-use assets and lease liabilities for both low-value assets and leases with a lease term of less than 12 months. The Group recognises the lease payments associated with these leases as expenses when incurred.

## 3. Changes in accounting policies *(continued)*

### As a lessee *(continued)*

The Group presents right-of-use assets in "property, plant and equipment". The carrying amounts of right-of-use assets are as below.

| | Office buildings |
|---|---|
| Balance at 1 March 2019 | 19 289 400 |
| Depreciation on right-of-use assets (IFRS 16) | (3 147 750) |
| **Balance at 29 February 2020** | **16 141 650** |

The Group presents lease liabilities in the statement of financial position under trade and other payables.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date.

The lease liability is initially measured at the present value of the lease payments that are not paid at commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised.

The right-of-use asset is initially measured at an amount equal to the sum of the lease liability, initial direct costs, costs of removing and restoring the lease asset and payments made prior to the lease commencement. The right-of-use asset is subsequently measured at cost less accumulated depreciation and impairment loss and adjusted for certain remeasurements of the lease liability.

The group has applied judgement to determine whether it is reasonably certain to exercise renewal options, as such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

Management took into account current business performance and future growth forecasts and believe that it is prudent to not commit to any lease extension currently. In the event that the company terminates the lease at the end of the term, it will consider the purchase or rental of another building, depending on prevailing economic conditions and performance of the Group.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at present value of the remaining leased payments, discounted at the Group's incremental borrowing rate at 1 March 2019. The right of use asset is measured at an amount equal to the lease liability, adjusted for any prepaid or accrued lease payments.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied the exemption not to recognise right-of-use asset and liabilities for leases with a lease term of less than 12 months;
- Excluding initial direct costs from measuring the right-of-use asset at the date of initial application; and
- Applied the modified retrospective approach (see below).

The Group has leases that represent low-value leases, below are the typical items that are represent the types of low-value-assets that are leased:

- Printers;
- Telephonic systems and devices;
- Site equipment; and
- Off-site data servers.

# Notes to the Summarised Consolidated Annual Financial Statements (continued)

## 3. Changes in accounting policies *(continued)*

### As a lessor

The Group leases out its investment property and has classified these leases as operating leases.

The accounting policies applicable to the Group as a lessor are not different from those under IAS 17.

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. However, the Group has applied IFRS 15: *Revenue from Contracts with Customers* to allocate consideration in the contract to each lease and non-lease component.

### Transitional provisions – modified retrospective approach

Under the modified retrospective approach, the Group applies IFRS 16: *Leases* from the beginning of the current period. The Group:

- Calculated the lease assets and lease liabilities as at the beginning of the current period being 1 March 2019;
- Does not restate its prior-period financial information;
- Recognises an adjustment in equity at the beginning of the current period;
- Applies IAS 36: *Impairment of Assets* to assess the lease assets for impairment on the date of initial application being 1 March 2019; and
- The lease asset is measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognized immediately before the date of initial application.

An incremental borrowing rate was used to determine the value of the lease liability and asset on the date of adoption. The incremental borrowing rate of 11.46% was determined based on a borrowing over a similar term and similar security with an asset of a similar value.

### Impact on financial statements on transition

On transition to IFRS 16, the Group recognised additional right-of-use assets and lease liabilities. The impact of the transition is as follows.

| | 1 March 2019 |
|---|---|
| **Right-of-use asset recognition** | |
| Right-of-use asset equal to the lease liability | 22 634 911 |
| Offset of the lease smoothing liability as at 28 February 2019 against the asset value | (3 345 511) |
| **Right-of-use asset presented in property, plant and equipment** | 19 289 400 |
| **Lease liability recognition** | 22 634 911 |
| **Retained earnings impact** | (936 743) |

## 3. Changes in accounting policies *(continued)*

### Impact on financial statements on transition *(continued)*

When measuring the lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using the rate of its average cost of debt at 1 March 2019 being 11.46%.

As a result of initially applying IFRS 16, in relation to leases that were previously classified as operating leases, the Group recognised R19 289 400 right-of-used assets and R22 634 911 lease liabilities.

Also, in relation to those leases under IFRS 16, the Group has recognised depreciation and interest costs, instead of operating lease expense. During the year ended 29 February 2020, the Group recognised R3 147 750 of depreciation and R2 503 518 of interest costs from these leases and made capital lease payments of R4 342 776.

| | 1 March 2019 as reported | IFRS 16 Opening balance adjustment | 1 March 2019 adjusted | IFRS 16 Year-end impact | 29 February 2020 |
|---|---|---|---|---|---|
| **Statement of financial position** | | | | | |
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 12 173 346 | 19 289 400 | 31 462 746 | (3 147 750) | **28 314 996** |
| Deferred tax asset | 16 465 456 | – | 16 465 456 | (229 535) | **16 235 921** |
| **Current assets** | | | | | |
| Bank | 122 632 997 | – | 122 632 997 | (4 342 776) | **118 290 221** |
| **Equity and liabilities** | | | | | |
| **Equity** | | | | | |
| Retained income | 690 054 102 | (936 743) | 689 117 359 | (4 068 913) | **685 048 446** |
| **Liabilities** | | | | | |
| Deferred income tax liability | 214 300 153 | 936 743 | 215 236 896 | (1 582 355) | **213 654 541** |
| Trade and other payables | 896 279 099 | 19 289 400 | 915 568 499 | (819 768) | **914 748 731** |
| **Statement of comprehensive income** | | | | | |
| Administrative expenses | | | | (3 147 750) | |
| **Operating profit** | | | | (3 147 750) | |
| Finance costs | | | | (2 503 518) | |
| **Profit before tax** | | | | (5 651 268) | |
| Taxation | | | | 1 582 355 | |
| **Profit after taxation** | | | | (4 068 913) | |
| **Total comprehensive income** | | | | (4 068 913) | |

### Reconciliation of lease commitments disclosed at 28 February 2019 (IAS 17) to the lease liability recognised at 1 March 2019 (IFRS 16)

| | |
|---|---|
| Operating lease commitments as disclosed at 28 February 2019 for the next five years | 22 774 809 |
| Operating lease commitments for longer than five years | 10 044 426 |
| | 32 819 235 |
| Discounted using the Group's incremental borrowing rate of 11.46% | (10 184 324) |
| **Lease liability recognised as at 1 March 2019** | 22 634 911 |

# Notes to the Summarised Consolidated Annual Financial Statements (continued)

## 4. Revenue

| | 2020 | 2019 |
|---|---|---|
| **Disaggregated revenue** | | |
| **Residential Property Development segment** | | |
| Infrastructure | **173 464 550** | 440 224 268 |
| Fully and partially subsidised units | **509 191 317** | 452 065 209 |
| Non-subsidised units | **222 325 693** | 33 621 990 |
| Serviced land sales | **45 360 911** | 50 233 318 |
| | **950 342 471** | 976 144 785 |
| **Memorial Parks segment** | | |
| Memorial parks burial rights | **19 965 357** | 16 325 193 |
| Memorial parks maintenance | **2 186 949** | 2 044 624 |
| Memorial parks burial services | **3 540 177** | 2 549 926 |
| | **25 692 483** | 20 919 743 |
| **Residential Property Rental segment** | | |
| Rental income residential | **8 095 532** | – |
| | **8 095 532** | – |
| **Total revenue** | **984 130 486** | 997 064 528 |

## 5. Earnings reconciliation

| | 2020 | Restated 2019* |
|---|---|---|
| **Earnings reconciliation** | | |
| Determination of headline and diluted earnings: | | |
| Profit attributable to shareholders | **4 918 905** | 3 240 735 |
| Profit on disposal of property, plant and equipment and computer software | **(379 635)** | – |
| Profit on sale of investment in joint venture | **(2 273 697)** | – |
| Fair value adjustment in investment properties* | **–** | (1 655 587) |
| Gain on bargain purchase | **–** | (27 600 377) |
| Headline and diluted headline earnings | **2 265 573** | (26 015 230) |
| Determination of earnings and diluted earnings: | | |
| Attributable profit | **4 918 905** | 3 240 735 |
| Earnings and diluted earnings | **4 918 905** | 3 240 735 |
| Number of ordinary shares | **128 150 069** | 128 150 069 |
| Weighted average shares | **128 150 069** | 128 150 069 |
| Fully diluted weighted average shares | **133 619 521** | 130 427 726 |
| Headline earnings/(loss) per share – cents | **1.77** | (20.30) |
| Fully diluted headline earnings per share – cents | **1.70** | (20.30) |

* *In 2019 the Group did not exclude the fair value adjustment in the calculation of headline earnings per share. The restated number is shown above.*

## 6. Inventories

| | **2020** | 2019 |
|---|---|---|
| Opening balance | **568 498 000** | 554 397 497 |
| Additions (net of transfers to construction contracts) | **269 440 817** | 91 327 959 |
| Borrowing costs capitalised | **12 210 596** | 22 165 556 |
| Net realisable value adjustments | **(681 928)** | (54 452 744) |
| Disposals | **(130 162 016)** | (44 940 268) |
| **Closing balance** | **719 305 469** | 568 498 000 |

## 7. Construction contracts

| | **2020** | 2019 |
|---|---|---|
| The aggregate costs incurred and recognised profits to date | **4 651 857 895** | 4 172 437 264 |
| *Less:* Progress billings | **(3 774 054 211)** | (3 061 010 070) |
| **Net statement of financial position balance for ongoing contracts** | **877 803 684** | 1 111 427 194 |
| Excess billings over work done classified under trade and other payables | **69 115 355** | 198 231 245 |
| Provision for loss making contracts classified under trade and other payables | **3 432 443** | 4 847 353 |
| **Gross statement of financial position balance for ongoing contracts** | **950 351 482** | 1 314 505 792 |
| **Disaggregated construction contracts – pre expected credit loss provisions** | | |
| Infrastructure – contract assets | **29 180 561** | 315 881 180 |
| Fully and partially subsidised units – contract assets | **288 298 981** | 505 700 429 |
| Non-subsidised units – contract assets | **28 368 945** | 10 871 906 |
| Serviced land – contract assets | **54 081 590** | 47 342 897 |
| **Contract assets** | **399 930 077** | 879 796 412 |
| **Future contract asset costs** | | |
| Development cost for future contract assets | **550 421 405** | 434 709 380 |
| | **950 351 482** | 1 314 505 792 |
| **Reconciliation of construction contracts** | | |
| Gross statement of financial position balance for ongoing contracts | **399 930 077** | 879 796 412 |
| Provisions for expected credit losses on contract assets | **(4 402 995)** | (35 432 920) |
| Development cost for future contract assets | **550 421 405** | 434 709 380 |
| **Statement of financial position balance for construction contracts** | **945 948 487** | 1 279 072 872 |

* *The normal operating cycle for inventory, construction contracts and work in progress is considered to be longer than 12 months.*

The expected aggregate revenue still to be recognised on the current contract asset balances amount to R1 874 632 584 (2019: R1 935 650 160) and will be recognised within the normal operating cycle of the business.

Borrowing costs to the value of R57 384 762 (2019: R54 291 729) have been capitalised.

# Notes to the Summarised Consolidated Annual Financial Statements (continued)

## 8. Related-party transactions

| | **2020** | 2019 |
|---|---|---|
| Compensation paid to key employees and personnel | **21 723 913** | 47 258 857 |
| Finance income from related parties | **23 305 167** | 40 656 735 |
| Contract revenue received from joint ventures | **129 861 734** | 342 747 719 |

## 9. Financial instruments

The carrying value of all financial instruments is equal to the fair value of those instruments at 29 February 2020 with the exception of borrowings. The carrying value of borrowings at 29 February 2020 was R1.06 billion, with a corresponding fair value of R1.08 billion. The difference is attributable to the bonds trading in an active market and is classified as level 2 in the IFRS 13: *Fair Value Hierarchy*.

## 10. Bond Exchange

During the year ended 29 February 2020, the Group repaid R157 million in borrowings that matured, as well as raised a total of R249 million in a combination of three and five-year notes.

Total finance cost incurred for the period amounted to R134 312 411 million (February 2019: R135.8 million) of which R69.6 million (February 2019: R76.5 million) was capitalised to inventory and construction contracts.

## 11. Dividends

Management believes that cash should be retained to fund growth across the Group. Cash retention is important to ensure investment in future projects, as well as reduced reliance on debt finance. The Board has therefore resolved not to declare a dividend for this reporting period.

## 12 Going concern

Based on the latest results for the year ended 29 February 2020, the latest Board approved budget for the 2021 financial year, as well as the available bank facilities and cash generating capability, Calgro M3 satisfies the criteria of a going concern.

## 13. Corporate Governance

Corporate governance forms one of the foundational layers of the Calgro M3 strategy as we understand that transparency, integrity and accountability need to permeate everything that we do. The Board of Directors endorses the principles contained in King IV™. Calgro M3's application of these principles is set out in the 2020 Corporate Governance report as well as the King IV application register, and is, in accordance with the JSE Listings Requirements, available on the Company's website. Please contact Ms I April, Group company secretary, for any additional information.

## 14. Ratio calculations

**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 | 2019 |
|---|---|---|
| **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 | 2019 |
|---|---|---|
| **Available cash flow** | | |
| Cash generated from operating activities | **464 208 720** | 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) | **(158 201 445)** | (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 |

**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.

# Notes

# General information

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

**Registered office and business address**
Calgro M3 Building
Ballywoods Office Park
33 Ballyclare Drive
Bryanston
2196

**Postal address**
Private Bag X33
Craighall
2024

**Published**
18 May 2020

**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 Chairperson |
| PF Radebe[2] | Independent Non-Executive |
| 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**
The financial statements from which these summarised financial statements have been extracted, has 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