COMMENTARY

The Directors present the condensed consolidated interim financial results for the six months ended 31 August 2013 (“the period”), which reflect an improvement in a number of key financial indicators.

Results of the Group’s operations showed improvement in the period under review, despite the tough trading environment in the development and construction sectors. The continuing labour unrest in the Western Cape, delays in electrical supply to the Jabulani project and increased activity in the lower margin installation of services contributed to margins being under pressure. Despite the prevailing negativity, the Group’s order book has increased, bolstered by new projects in Rustenburg and Bloemfontein.

Financial Results

Revenue at group level increased to R435 million (August 2012: R401 million) while revenue in Joint Ventures (JV’s) increased to R347 million increasing profits from JV’s to R 27.6 million (August 2012: R12.4 million). Various projects from the Group’s healthy pipeline are under construction, growing the diversified client base in the integrated market segment, with another two projects expected to commence during the second half of the 2014 financial year.

Profit after tax was R51 million (August 2012: R40.2 million). Headline earnings per share increased by 26.96% to 40.16 cents (August 2012: 31.63 cents) with gross profit margins decreasing to 14.26% (August 2012: 17.04%). This was as a result of the increased activity in the installation of civil and electrical infrastructure with a lower margin that preceded top structure construction scheduled for the next 18 months when the margin and related cost from operations will again increase.

The Group’s cash position remains strong at R155 million (February 2013: R198 million). Working capital continues to be closely monitored, particularly the timeous receipt of debtors and the transfer of properties to clients ensuring that money becomes due and payable.

Total net debt increased to R287.3 million (February 2013: R101.6 million), as a result of the Group raising a new R222 million 36 month unsecured instrument at a variable interest rate of 4.5% above Jibar that expires on 30 June 2016. The capital was utilised to strengthen working capital on long term projects, fast track the installation of infrastructure for future top structure construction resulting in cash from operations being negative R167 million and to settle secured debt at group level as well as secured Fleurhof (JV) debt. This resulted in the Group’s balance sheet now being completely unsecured and aligning the interest of stakeholders to maximising returns.

The statement of financial position remained steady with total assets of R1 003 billion (February 2013: R809 120 million). No significant asset additions or disposals occurred during the period under review. Management is of the opinion that the Group’s Statement of Financial position is appropriately structured to support the implementation of the pipeline and future growth.

Contract revenue from related parties increased to R224 million (August 2012: R183 million), while amounts receivable from JV’s increased to R125 million (February 2013: R57 million) due to the increase of service installation that will be recouped through top structure construction and due to the inability to register units on the Jabulani project due to power delays.

SHARE APPRECIATION RIGHTS SCHEME (SAR)

The Share Appreciation Rights Scheme (SAR) of 9 650 000 rights to directors and senior management introduced 1 March 2012 (with a vesting period of 2,3,4 and 5 years if a hurdle growth rate linked to the Consumer Price Index (CPI) is exceeded) resulted in an amount of R3 196 971 being recognised as an expense in the Statement of Comprehensive Income for the period to 31 August 2013.

Operational Review

The already secured pipeline was increased, and again adjusted, to take into account various risk factors. The installation of bulk infrastructure will commence on two new projects during the second half of the 2014 financial year, converting more of the pipeline into construction projects.

The Group experienced a renewed commitment from Government to increase investment in infrastructure allowing the Group to deliver on infrastructure for integrated developments. The six months under review saw an increase in the installation of infrastructure, and although this puts the gross margin under severe pressure, it will enable the Group to increase its higher margin construction of top structures during the next six months.

The Group benefited from its exposure to Social Housing and units aimed at the FLISP (Finance Linked Individual Subsidy Programme) market that is currently gaining traction. With the FLISP pilot project successfully completed more units are currently under construction on both the Fleurhof and Jabulani projects.

As projected, construction capacity has reached a stage where the use of external contractors is increased to ensure that quality is maintained and committed time lines with regard to delivery met. This is in line with the Group’s commitment to partner with local and emerging contractors.

Infrastructure for the second phase of the **Fleurhof project** (Ext 5, 7 – 11) was completed and construction of 809 units aimed at the bonded market, Breaking New Ground (BNG) market and FLISP market, all contributed towards revenue. Of 400 units currently under construction for a Social Housing Institute (SHI) the first reached completion and were handed over and transferred at the end of the reporting period. The investment in infrastructure (for in excess of 2 400 opportunities)in the third phase was fast tracked and construction of top structures in this phase will contribute during the next eighteen months. New contracts for the construction of 752 units aimed at the Social Housing and BNG markets were concluded. This was complemented by the launch of units aimed at the bonded market.

Bulk and link infrastructure as well as internal infrastructure reached completion on the **Scottsdene project**. The first pocket of 83 fully subsidised housing units was completed and handed over to beneficiaries. This was complemented by the handover of the first of 88 units aimed at the bonded market. The balance of the 88 units aimed at the bonded market, another pocket of 80 fully subsidised units as well as the first 154 Community Residential Units “CRU” units constructed for the City of Cape Town, will be completed and handed over during the next six months.

Uncertainties with regard to the timing of the power supply to the **Jabulani CBD** projects resulted in construction activity declining substantially, putting project margins under pressure. The construction of the first two land parcels are nearing completion, but with the installation of infrastructure for the next land parcels delayed until certainty with regard to power can be obtained, the project will not be a contributor during the last six months of the 2014 financial year.

Construction of the last 36 units in the **Jukskei View project** will be completed during the last six months of the financial year. A new project aimed at this specific market segment was acquired and delays in the installation of infrastructure for the **Witpoortjie** project were overcome and will commence during the next reporting period.

The first two phases of the **Brandwag project** in Bloemfontein is nearing completion with 282 units handed over and occupied. Although the third phase of the project was awarded, construction has not commenced as the Group’s risk has not been sufficiently mitigated as “financial closure” between contracting parties could not be proven. Construction will not commence until the Group’s payment risks have been mitigated.

The Mid-to-High income housing sector is still slow in showing a recovery. With the installation of infrastructure for the first phase of the **La Vie Nouvelle project** (retirement village) completed and sufficient sales having been reached, the construction of top structures commenced during August. All debt associated to this market segment have been settled and the Group will continue to “landbank” properties acquired for this market segment.

HEALTH & SAFETY

The Group again maintained its exceptional safety record and was again free of fatality and serious injuries in the workplace. The Group will not take this position for granted and a continuous effort will be maintained to sustaining its target level of zero harm.

Prospects

Trading conditions in the construction and development sector remain challenging, but support from local government and strong end user sales in the FLISP, GAP and Affordable markets are all contributing in making integrated developments based on Private Public Partnerships successful.

Government’s undertaking to close the gap between fully subsidised housing and the entry level affordable bonded market by providing Social Housing and the newly revised FLISP units is continuing to create exciting new opportunities and the Group is well positioned to make use of opportunities presented.

Any reference to future performance included in this announcement has not been reviewed by the Group’s external auditors.

CORPORATE GOVERNANCE

The directors and senior management of the Group endorse the Code of Governance Principles and Report on Governance, together referred to as King III. Having regard to the size of the Group, the Board is of the opinion that the Group substantially complies with King III and with the Listings Requirements of the JSE Limited. The Group performs regular reviews of its corporate governance policies and practices and strives for continuous improvement in this regard.

APPRECIATION

Our management team have been instrumental in ensuring that growth could be sustained. We thank them and look forward to continuing on this successful path of creating value for our shareholders. We would also like thank our partners, clients and shareholders for maintaining confidence in us.

Notes

1. Basis of preparation
These consolidated condensed financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) on Interim Financial Reporting IAS34, SAICA financial reporting guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council, the South African Companies Act and the Listings Requirements of the JSE Limited. The accounting policies are consistent with those used in the annual financial statements for the year ended 28 February 2013.The financial statements have been prepared by Mr WA Joubert (CA)SA under supervision of Mr WJ Lategan CA(SA) and were approved by the board on 14 October 2013.

2. Independent audit
These consolidated condensed interim financial statements have not been audited or reviewed by the group’s external auditors.

3. Dividends
No dividends have been declared for the period. The Board is of the opinion that the Group must continue to conserve cash to maintain the present growth and create shareholder value.

By Order of the Board

BP Malherbe (Chief executive officer) WJ Lategan (Financial director)

Johannesburg 14 October 2013

Directors:
PF Radebe (Chairperson)*, BP Malherbe (Chief executive officer), WJ Lategan (Financial director), FJ Steyn,DN Steyn, JB Gibbon*#, H Ntene*, R Patmore*# ,ME Gama*#)
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Sponsor: Grindrod Bank Limited **Auditors:** PricewaterhouseCoopers Inc.

www.calgrom3.com

CALGRO M3
HOLDINGS

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 AUGUST 2013

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 Group” or “the Company”)

- Revenue ↑ 8% to R434.6 million
- Profit after tax ↑ 26.96%
- Headline earnings and earnings per share ↑ 26.96% to 40.16 cents
- Net asset value per share ↑ 16% to 298 cents
- Cash on hand of R155 million
- Pipeline in excess of R10 billion

www.calgrom3.com

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

R'000	Unaudited Six Months 31 Aug 2013	Unaudited Six Months 31 Aug 2012	Audited Year ended 28 Feb 2013
Revenue	434 638	400 669	798 394
Cost of sales	(372 642)	(332 379)	(650 436)
Gross profit	61 996	68 290	147 958
Net administrative expenses	(28 296)	(25 770)	(58 584)
Operating profit	33 700	42 520	89 374
Net finance (cost)/income	(2 595)	(1 581)	(1 540)
Share of profit of Joint ventures (Net of tax)	27 638	12 434	29 406
Profit before taxation	58 743	53 373	117 240
Taxation	(7 703)	(13 176)	(25 937)
Profit after taxation	51 040	40 196	91 303
Total comprehensive income	51 040	40 196	91 303
Attributable to:			
Equity holders of the Company	51 040	40 196	91 303
Basic and diluted earnings per share – cents	40.16	31.63	71.84
Basic and diluted Headline earnings per share – cents	40.16	31.63	71.84

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

R'000	Unaudited Six Months 31 Aug 2013	Unaudited Six Months 31 Aug 2012	Audited Year ended 28 Feb 2013
Net cash from operating activities	(167 500)	26 206	12 585
Net cash from/(utilised in) investing activities	(17 865)	(20 678)	8 269
Net cash from financing activities	141 875	43 777	73 798
Net (decrease)/increase in cash and cash equivalents	(43 490)	49 305	94 652
Cash and cash equivalents the beginning of the year	198 343	103 691	103 691
Cash and cash equivalents at the end of the period	154 853	152 996	198 343

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

R'000	Unaudited Six Months 31 Aug 2013	Audited Year ended 28 Feb 2013
ASSETS		
Non-current assets		
Property, plant and equipment	3 412	4 245
Deferred tax	14 733	13 908
Other non-current assets	183 978	135 101
	202 123	153 254
Current assets		
Inventories	284 823	264 580
Construction contracts and work in progress	250 055	141 483
Trade and other receivables	104 881	45 339
Other current assets	6 381	6 121
Cash and cash equivalents	154 853	198 343
	800 993	655 866
Total assets	1 003 116	809 120
EQUITY AND LIABILITIES		
Equity		
Capital and reserves	378 397	327 358
Total equity	378 397	327 358
Non-current liabilities		
Deferred tax	33 885	26 863
Other non-current liabilities	74	215
	33 959	27 078
Current liabilities		
Current borrowings	442 141	299 890
Other current liabilities	148 619	154 794
	590 760	454 684
Total liabilities	624 719	481 762
Total equity and liabilities	1 003 116	809 120
Net asset value per share - cents	297.72	257.56

EARNINGS RECONCILIATION

R'000	Unaudited Six Months 31 Aug 2013	Unaudited Six Months 31 Aug 2012	Audited Year ended 28 Feb 2013
Determination of headline earnings			
Attributable profit	51 040	40 196	91 303
Headline earnings	51 040	40 196	91 303
Determination of diluted earnings			
Attributable profit	51 040	40 196	91 303
Diluted earnings	51 040	40 196	91 303
Number of ordinary shares ('000)	127 100	127 100	127 100
Weighted average shares ('000)	127 100	127 100	127 100

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital	Share Premium	Retained Income	Total equity
Balance at 01 March 2012	1 271	96 020 450	140 032 285	236 054 006
Profit for the period	-	-	40 196 876	40 196 876
Total comprehensive income for the period ended 31 August 2012	-	-	40 196 876	40 196 876
Balance at 31 August 2012	1 271	96 020 450	180 229 161	276 250 882
Balance at 01 March 2013	1 271	96 020 450	231 335 823	327 357 544
Profit for the period	-	-	51 039 752	51 039 752
Total comprehensive income for the period ended 31 August 2013	-	-	51 039 752	51 039 752
Balance at 31 August 2013	1 271	96 020 450	282 375 575	378 397 296

CONDENSED SEGMENT REPORT FOR THE GROUP

R'000	Construction Land Development	Land Sales	Professional Services	Total
August 2013				
Revenue - External	428 768	1 963	3 907	434 638
Operating profit/(loss)	30 041	1 415	3 327	34 783
Finance cost	(6 581)	(7)	-	(6 588)
Adjusted profit/(loss)before tax from reportable segments	23 460	1 408	3 327	28 195
August 2012				
Revenue - External	312 801	84 196	3 672	400 669
Operating profit/(loss)	39 267	27	3 441	42 735
Finance cost	(4 184)	-	-	(4 184)
Adjusted profit/(loss)before tax from reportable segments	35 083	27	3 441	38 551
August 2013				
Assets				
Goodwill	28 515	-	4 155	32 670
Inventories	21 022	263 800	-	284 822
Construction contracts	247 823	-	-	247 823
Liabilities				
Borrowings	(442 141)	-	-	(442 141)
February 2013				
Assets				
Goodwill	28 515	-	4 155	32 670
Inventories	23 199	242 404	-	265 603
Construction contracts	66 884	-	-	66 884
Liabilities				
Borrowings	(191 000)	(77 768)	-	(268 768)

A reconciliation of adjusted profit/(loss) before tax is provided as follows:

R'000	Unaudited Six Months 31 Aug 2013	Unaudited Six Months 31 Aug 2012
Adjusted profit before tax for reportable segments	28 195	38 551
Share of profit of joint ventures – Net of tax	27 638	12 435
Total Segments	54 750	50 771
Finance income – net	3 993	2 602
Profit before tax	58 743	53 373