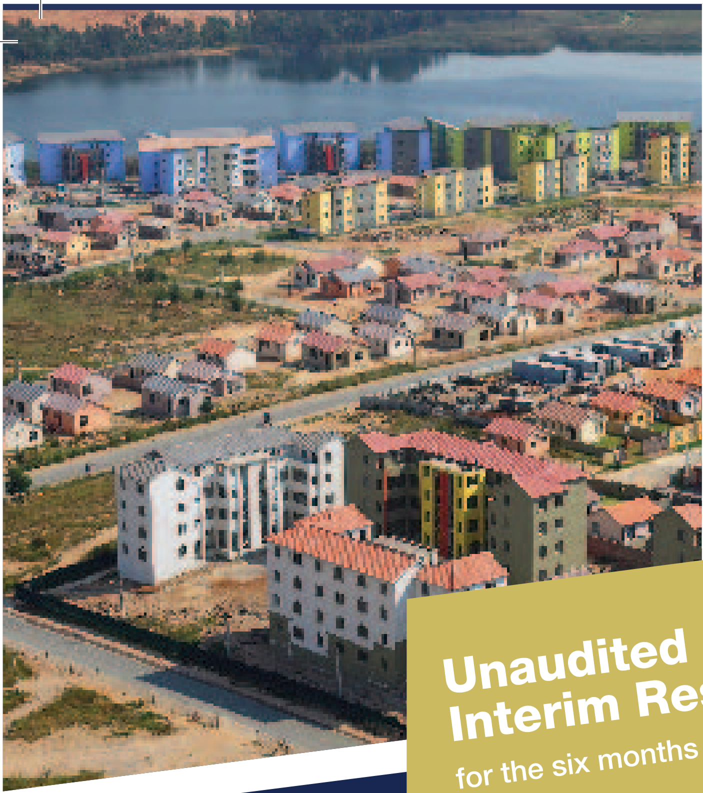

CALGRO M3
Group

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")

Unaudited Interim Results

for the six months ended 31 August 2016

- **Earnings before interest and taxation increased by 11,4% to R119,6 million** (2015: R107,5 million)
- **Net cash generated from operations increased to R94 million** (2015: R32,0 million) **while borrowings decreased to R525,5 million**
- **No fatalities during the period**
- **Net debt:equity strengthened to 0.53** (February 2016: 0.59)
- **Headline earnings per share down 1,7% to 65,13 cents per share**

www.calgrom3.com

Building legacies. Changing lives

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

R'000	**Unaudited six months 31 August 2016**	Unaudited six months 31 August 2015	Audited year ended 29 February 2016
Revenue	**720 233**	573 195	1 204 064
Cost of sales	**(539 331)**	(454 175)	(952 517)
Gross profit	**180 902**	119 020	251 547
Other income	**1 165**	599	19 466
Other expenses	**–**	(1 958)	(5 757)
Administrative expenses	**(67 654)**	(54 988)	(105 089)
Operating profit	**114 413**	62 673	160 167
Share of profit of joint ventures and associates – Net of tax	**5 199**	44 676	67 234
Net finance (cost)/income	**(1 011)**	1 297	11 874
Profit before tax	**118 601**	108 646	239 275
Taxation	**(35 469)**	(24 458)	(46 090)
Profit after taxation	**83 132**	84 188	193 185
Other comprehensive income	**–**	–	–
Total comprehensive income	**83 132**	84 188	193 185
Profit after taxation and other comprehensive income attributable to:			
– Owners of the parent	**82 754**	84 204	194 176
– Non-controlling interests	**378**	(16)	(991)
	83 132	84 188	193 185
Profit after taxation attributable to:			
Equity holders of the company	**82 754**	84 204	194 176
Earnings per share – cents	**65,11**	66,25	152,77
Headline earnings per share – cents	**65,13**	66,25	138,96
Fully diluted earnings per share – cents	**63,96**	65,98	150,45
Fully diluted headline earnings per share – cents	**63,98**	65,98	136,85

EARNINGS RECONCILIATION

R'000	**Unaudited six months 31 August 2016**	Unaudited six months 31 August 2015	Audited year ended 29 February 2016
Determination of headline and diluted earnings			
Attributable profit	**82 754**	84 204	194 176
Profit/(loss) on disposal of property	**25**	–	79
Gain on deemed disposal of interest in joint venture	**–**	–	(17 632)
Headline and diluted headline earnings	**82 779**	84 204	176 623
Determination of earnings and diluted earnings			
Attributable profit	**82 754**	84 204	194 176
Earnings and diluted earnings	**82 754**	84 204	194 176
Number of ordinary shares ('000)	**127 100**	127 100	127 100
Weighted average shares ('000)	**127 100**	127 100	127 100
Fully diluted weighted average shares ('000)	**127 384**	127 629	129 062

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

R'000	**Unaudited six months 31 August 2016**	Unaudited six months 31 August 2015	Audited year ended 29 February 2016
Assets			
Non-current assets			
Property, plant and equipment	**3 854**	2 531	3 827
Deferred income tax asset	**12 500**	19 957	13 788
Intangible assets	**159 016**	40 852	159 039
Investment in joint ventures and associates	**11 279**	274 244	6 080
Investment property	**–**	5 743	–
	186 649	343 327	182 734
Current assets			
Inventories	**363 424**	517 165	453 093
Construction contracts and work in progress	**1 151 033**	260 677	923 521
Trade and other receivables	**235 670**	170 983	285 893
Other current assets	**34 351**	31 175	17 188
Cash and cash equivalents	**70 545**	152 712	80 071
	1 855 023	1 132 712	1 759 766
Total assets	**2 041 672**	1 476 039	1 942 500
Equity and liabilities			
Equity			
Stated capital	**96 022**	96 022	96 022
Share-based payment reserve	**61 263**	31 441	47 922
Retained income	**759 677**	566 951	676 923
	916 962	694 414	820 867
Non-controlling interests	**(700)**	(103)	(1 078)
Total equity	**916 262**	694 311	819 789
Non-current liabilities			
Deferred income tax liability	**274 636**	65 994	241 041
	274 636	65 994	241 041
Current liabilities			
Borrowings	**525 503**	483 583	538 463
Other current liabilities	**325 271**	232 151	343 207
	850 774	715 734	881 670
Total liabilities	**1 125 410**	781 728	1 112 711
Total equity and liabilities	**2 041 672**	1 476 039	1 942 500
Net asset value per share – cents	**720,90**	546,27	645,00
Net tangible asset value per share – cents	**595,79**	514,13	519,87

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

R'000	**Unaudited six months 31 August 2016**	Unaudited six months 31 August 2015	Audited year ended 29 February 2016
Net cash generated from operating activities	**94 224**	31 951	35 511
Net cash utilised in investing activities	**(97 194)**	(1 304)	(140 533)
Net cash (utilised in)/from financing activities	**(6 556)**	(8 500)	54 528
Net (decrease)/increase in cash and cash equivalents	**(9 526)**	22 147	(50 494)
Cash and cash equivalents at the beginning of the period	**80 071**	130 565	130 565
Cash and cash equivalents at the end of the period	**70 545**	152 712	80 071

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

R'000	Stated capital	Share-based payment reserve	Retained income	Total	Non-controlling interests	Total equity
Balance at 1 March 2015	96 022	–	482 747	578 769	(87)	578 682
Reclassification of share appreciation rights liability	–	17 829	–	17 829	–	17 829
Share-based payment expense	–	13 612	–	13 612	–	13 612
Comprehensive income						
Profit for the period	–	–	84 204	84 204	(16)	84 188
Total comprehensive income	–	–	84 204	84 204	(16)	84 188
Balance at 31 August 2015	96 022	31 441	566 951	694 414	(103)	694 311
Balance at 1 March 2016	**96 022**	**47 922**	**676 923**	**820 867**	**(1 078)**	**819 789**
Share-based payment expense	**–**	**13 341**	**–**	**13 341**	**–**	**13 341**
Comprehensive income						
Profit for the period	**–**	**–**	**82 754**	**82 754**	**378**	**83 132**
Total comprehensive income	**–**	**–**	**82 754**	**82 754**	**378**	**83 132**
Balance at 31 August 2016	**96 022**	**61 263**	**759 678**	**916 962**	**(700)**	**916 262**

CONDENSED SEGMENT REPORT FOR THE GROUP

R'000	Property Development	Professional Services	Memorial Parks	Total
August 2016				
Total segment revenue	**718 288**	**858**	**1 087**	**720 233**
Revenue from joint ventures and associates	**42 456**	**858**	**–**	**43 314**
Revenue from third parties	**675 832**	**–**	**1 087**	**676 919**
Revenue of joint ventures and associates	**204 447**	**–**	**–**	**204 447**
Combined revenue	**922 735**	**858**	**1 087**	**924 680**
Operating profit	**116 967**	**(604)**	**(254)**	**116 109**
Finance costs	**(10 110)**	**–**	**(30)**	**(10 140)**
Adjusted profit before tax	**106 857**	**(604)**	**(284)**	**105 969**
August 2015 (restated)				
Total segment revenue	562 921	10 273	–	573 194
Revenue from joint ventures and associates	468 580	10 245	–	478 825
Revenue from third parties	94 341	28	–	94 369
Revenue of joint ventures and associates	453 506	–	–	453 506
Combined revenue	1 016 427	10 273	–	1 026 700
Operating profit	56 416	8 284	–	64 700
Finance costs	(5 992)	–	–	(5 992)
Adjusted profit before tax	50 424	8 284	–	58 708
August 2016				
Assets per segment	**1 553 117**	**16 938**	**103 358**	**1 673 413**
Goodwill	**154 801**	**4 155**	**–**	**158 956**
Inventories	**260 066**	**–**	**103 358**	**363 424**
Work in progress	**–**	**12 783**	**–**	**12 783**
Construction contracts	**1 138 250**	**–**	**–**	**1 138 250**
February 2016				
Assets per segment	1 433 723	16 938	84 908	1 535 569
Goodwill	154 801	4 155	–	158 956
Inventories	368 185	–	84 908	453 093
Work in progress	–	12 783	–	12 783
Construction contracts	910 737	–	–	910 737

ADDITIONAL INFORMATION

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

R'000	**Unaudited six months 31 August 2016**	Unaudited six months 31 August 2015
Adjusted profit before tax for reportable segments	**105 969**	58 708
Group overhead cost	**(1 695)**	(2 027)
Share of profit of joint ventures and associates	**5 199**	44 676
Total segments	**109 473**	101 357
Finance income	**9 128**	7 289
Profit before tax	**118 601**	108 646

Reportable segment assets are reconciled to total assets as follows:

R'000	**Unaudited six months 31 August 2016**	Audited year ended 29 February 2016
Segment assets for reportable segments	**1 673 413**	1 535 569
Unallocated:		
Deferred tax	**12 500**	13 788
Investment property	**–**	–
Property, plant and equipment	**3 854**	3 827
Intangible assets excluding goodwill	**60**	83
Investment in joint ventures and associates	**11 279**	6 080
Loans to joint ventures	**6 374**	2 700
Loans and receivables	**–**	–
Current tax receivable	**27 977**	14 488
Trade and other receivables	**235 670**	285 894
Cash and cash equivalents	**70 545**	80 071
Total assets per the consolidated statement of financial position	**2 041 672**	1 942 500

Reportable segment liabilities are reconciled to total liabilities as follows:

R'000	Unaudited six months 31 August 2016	Audited year ended 29 February 2016
Segment liabilities for reportable segments	**–**	–
Unallocated:		
Borrowings	**525 503**	538 463
Deferred tax	**274 636**	241 041
Current tax	**472**	419
Trade and other payables	**324 799**	342 787
Total liabilities per the consolidated statement of financial position	**1 125 410**	1 122 710

Related-party transactions

R'000	Unaudited six months 31 August 2016	Unaudited six months 31 August 2015
Compensation paid to key employees and personnel	**20 080**	20 316
Finance income from related parties	**4 895**	3 914
Contract revenue received from joint ventures	**42 511**	468 580
Services fees received from joint ventures	**858**	10 245

COMMENTARY

Nature of business

Calgro M3 is a property developer, focused on the lower end of the residential market involved in large scale Integrated Developments and the development and establishment of Memorial Parks.

Introduction

The Group's diversification within residential market sectors and its ability to timeously adapt to a changing environment allows it to efficiently operate between different market sectors when required.

As communicated in the 2016 integrated report and in line with the Group's strategic plan to diversify its exposure between residential sectors, the Group increased its focus on the private sector, in anticipation of the reduction in public sector spending leading up to the 2016 local elections.

Management views the Group's variable costing model as key to reducing risk in these uncertain times. Attention was placed on cash preservation, and creating long-term investment opportunities, that will complement and ensure sustainable growth of the development business. Management remains confident in its short to medium term growth strategy, and with the implementation of its new re-branded marketing efforts as well as the Real Estate Investment Trust ("REIT") investment (discussed later in the commentary), it is well positioned in the current unpredictable economic environment. Notwithstanding the challenges that have been faced, management is confident that growth will be restored in the second half of the year.

Changes in the segmental report

During the previous financial year, a decision was taken to align the segmental report to the Group's current and future strategic goals. The following three segments are reported on:

- Property Development;
- Professional Services; and
- Memorial Parks.

As per the SENS announcement of 29 August 2016, Calgro M3 is in the process of investing in a REIT. Due to the strategic nature of this transaction, the investment will be reported on as a separate segment, as soon as the first units have been acquired by the entity.

Financial performance

Group revenue increased by 25,7% to R720,2 million (2015: R573,2 million) supported by Fleurhof being accounted for as a subsidiary of the Group. Combined revenue, however, decreased by 9,9% to R922,7 million mainly due to the slowdown in infrastructure investment in the lead up to local municipal elections and the community unrest at various projects, the worst affected being South Hills which was brought to a complete standstill for the longest time during the election period. In addition, the construction of units sold to the private sector only commenced towards the end of the reporting period and will therefore only start contributing to profit in the next six months.

It should be noted that as from 29 February 2016, Fleurhof Ext 2 (Pty) Ltd is accounted for as a subsidiary of the Group and no longer as a joint venture. Subsequently the effect is an increase in revenue, cost of sales and gross profit of the Group, and a decrease in share of profits from joint ventures and associates. The tax rate of the Group is also impacted by this consolidation as the share of profits from joint ventures and associates are accounted for net of tax.

The net effect of the above is an increase in operating profit of 82,5% for the period to R114,4 million (2015: R62,7 million). The latter due to the increase in top structure construction and the decrease in infrastructure investment. The inclusion of Fleurhof as a subsidiary of the Group also contributed to the increase in operating profit.

The 23,0% increase in operating expenses is not in line with the increase in revenue or gross profit margin, but is overly inflated by non-recurring items such as a VAT penalty that is being disputed. This cost line increased further with outlays for the rebranding and marketing campaigns, targeted at the private segment of the market. The re-branding initiative has brought about an 80% increase in open market sales, the benefit of which will only be seen with the construction of these units over the next 6 – 18 months. These marketing and education drives are improving the quality of our clients' credit records, and this bodes well for our mantra of contributing towards the wellbeing of the people of South Africa and ensuring a better future for all.

Basic earnings per share ("EPS") remained relatively flat for the period, decreasing by 1,72% to 65,11 cents per share (2015: 66,25 cps). Similarly, headline earnings per share ("HEPS") decreased by 1,69% to 65,13 cents per share (2015: 66,25 cps).

Inventory and construction contracts increased by R137,8 million over the period, reflecting that investment into infrastructure and new projects was constrained. Current tax receivable increased by R13,5 million over the period as a result of delays in income tax refunds and legislative processes.

Management believes that the Group's current net debt to equity ratio of 0,53 (February 2016: 0,59) provides a good base with room to increase gearing to support the rollout of the pipeline and new investments.

The cash outflows associated with the payment of the final instalment of the Fleurhof purchase price of R93 million and a net settlement in borrowings of R13 million during the period, was supported with positive cash generated from operations on a number of projects. This was further supported by the much lower than normal capital investment in long-term projects due to the "consolidation" by management of the operations prior to the municipal elections.

Operational performance

Property Developments

During the period, 4 542 houses were under construction, of which 1 272 have been handed over to owners. An additional 5 239 opportunities are being serviced of which the majority were started post the local elections. On completion of these services just over 10 000 serviced opportunities will be available for future construction.

The Witpoortjie project won the Gauteng Govan Mbeki award for the best Affordable and FLISP Project, and the Scottsdene project was awarded the best Social Housing Project nationally. It is pleasing to note that other Group projects are starting to be recognised. Ten out of the Group's 12 residential projects in the ground contributed towards this period's revenue. Fleurhof remains the single largest contributor and flagship project, but other projects are starting to take their rightful place in contributing to the numbers.

The first two phases of Witpoortjie and La Vie Nouvelle's infrastructure services were completed. Top structure construction and infrastructure installation in various stages of completion are progressing well at South Hills, Summerset, Jabulani Hostels, Jabulani CBD, Scottsdene, Belhar, Brandwag and Otjomuise in Namibia.

Government remains committed to the rollout of catalytic and mega housing projects and Calgro M3 is well positioned to benefit from this when Government spending normalises. With the newly established REIT (discussed later in the commentary) the Group managed to create critical scale in the private sector that should enhance its ability to roll out projects quicker and more efficiently. It is not the development business' intention to only sell units to the REIT. At least 50% of the private sector sales will remain focused on the end user, supported by the marketing and education campaigns. The sale of units to the REIT will not affect the progress made, and continued pursuit to increase the Group's open market sales significantly.

Implementation of the Vista Park and Leratong projects are delayed. It is expected that the Tanganani and Kwa Nobuhle projects will commence with bulk infrastructure before the financial year-end, ensuring that Calgro M3 is well positioned to mitigate, to some extent, the delays at Vista Park and Leratong.

Calgro M3 expects the South African economy to remain subdued and so too consumer spending. With increased development construction as a result of the Group's new REIT investment, as well as new infrastructure to commence in the second half of the year, the Group has committed to assist South Africa not only in eradicating the housing backlog, but also by ensuring job creation which in turn will drive economic growth. Various new training and skills development programmes will be launched over the next 6 – 12 months, and although this comes at a cost, the upliftment of communities will drive sustainability in the medium to long term.

Professional Services

The new architectural department is making a positive impact. This turnkey model assisted in supporting our investment in the REIT, as we are now able to use this approach to create income generating assets at attractive yields in a cost effective manner. The increased capacity in the segment continues to add value in the turnkey business model as the pipeline materialises.

The goal of this segment is to be an internal Group service and although revenues generated by this segment are eliminated on consolidation, it still has a profitable impact on the overall Group results. The intention of management is not to grow this business outside of internal requirements.

Memorial Parks

Calgro M3 Memorial Parks continued to grow and made a small contribution to revenue. With burial sites and funeral policy sales steadily increasing, management is positive that this business will start contributing to profits for the full financial year.

The marketing and insurance partnership agreement announced in May 2016 with Conduit Capital and their insurance arm, Constantia, has already made a positive impact. The goal is to generate annuity income to compensate for lumpy development cash flows.

Management is proud to announce the acquisition of Fourways Memorial Park, effective October 2016, for a total purchase consideration of R24,5 million on lucrative interest free payment terms. Fourways Memorial Park is a well-known private memorial park in Johannesburg. The acquisition includes the associate private memorial park business, with essential skills and experience which will ensure quicker and more efficient growth of this segment.

Venture into Real Estate Investment Trust (“REIT”)

On 16 August 2016, Calgro M3, in a joint announcement with SA Corporate Real Estate, announced the formation of a REIT to service the rental market in South Africa. The purpose for Calgro M3 is to secure annuity revenue which can be used as operating cash and improved Group gearing ability. This will also assist Government in eradicating the South African housing backlog and diversifies Calgro M3’s revenue streams. In the first phase of this initiative, AFHCO Calgro M3 (held 51% by SA Corporate and 49% by Calgro M3) will acquire new units to be developed by Calgro M3 in Johannesburg and Cape Town for a total consideration of R1,6 billion. It is the intention to grow the portfolio to reach property investments in the residential market across South Africa of between R10 billion and R15 billion. This REIT controlled company is to target net property income yields of circa 11%.

Currently no additional equity is required for the first phase investment of R522 million which will be funded from the Calgro M3 balance sheet.

Sustainability

The Group remains fully committed to sustainability. A detailed sustainability report is available on the website, www.calgrom3.com.

Safety

The Group is pleased to report that from an occupational health and safety perspective, it was once again fatality-free despite growth in both activity and workforce numbers. The Group continues to strive for a safe, harm-free working environment.

Board of directors

There was no change to the Board of Directors during the period.

Appreciation

Delivering another satisfactory set of results does not come without dedication from management, staff, contractors, suppliers and all stakeholders. Calgro M3 remains committed to “Building homes and changing lives” and will continue on this path to ensure South Africans have homes and environments which close the social gap. Calgro M3 wishes to thank shareholders and financiers for their continued support.

Notes

1. Basis of preparation

The summarised consolidated interim financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements and the requirements of the Companies Act applicable to summarised financial statements. The Listings Requirements require summarised consolidated financial statements 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 accounting policies applied in the preparation of the consolidated interim financial statements from which the summarised consolidated interim financial statements were derived are in terms of International Financial Reporting Standards and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements.

The consolidated interim financial statements have been prepared by Mr WA Joubert, CA(SA), and were approved by the board on 13 October 2016.

2. Independent audit

These condensed consolidated interim financial statements have not been audited or reviewed by the Group's external auditors.

3. Financial instruments

The carrying value of all financial instruments are equal to the fair value of those instruments at 31 August 2016 with the exception of borrowings. The carrying value of borrowings at 31 August 2016 was R525,5 million, with a corresponding fair value of R534,1 million. The difference is attributable to these bonds trading in an active market and are classified as level 2 in the IFRS 13 fair value hierarchy.

4. Bond exchange

During the period ended 31 August 2016, the Group repaid R117,1 million in borrowings that matured, as well as raised a total of R104,0 million in a combination of one and three-year notes.

Subsequent to 31 August 2016, another R15 million in three-year instruments were successfully raised.

Total finance cost incurred for the period amounted to R31,9 million (2015: R29,4 million) of which R21,8 million (2015: R23,4 million) was capitalised to inventory and construction contracts.

5. Dividends

The board of directors has resolved not to declare a dividend for the reporting period. The board is of the opinion that available cash should be retained in the Group to fund the steep growth phase that the Group is in.

BP Malherbe
(Chief Executive Officer)

WJ Lategan
(Managing Director)

WA Joubert
(Financial Director)

Johannesburg
17 October 2016

NOTES

Directors

PF Radebe (Chairperson)*#

BP Malherbe (Chief Executive Officer)

WJ Lategan (Managing Director)

FJ Steyn

WA Joubert (Financial Director)

W Williams

V Klein*#

H Ntene*#

R Patmore*#

ME Gama*#

HC Cameron*#

* *Non-executive* # *Independent*

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Sponsor

Grindrod Bank Limited

Auditors

PricewaterhouseCoopers Inc.

Website

www.calgrom3.com

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