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 2017

Overview of results

- Revenue increased 40.24% to R1.0 billion (August 2016: R720 million)
- Net debt to equity 61.58% (February 2017: 41.82%)
- EPS declined 26.72% to 47.71 cps (August 2016: 65.11 cps)
- Core EPS increased 18.42% to 77.10 cps (August 2016: 65.11 cps)
  ** Core earnings per share ("Core EPS") – earnings per share before elimination of unrealised profits from development of units to the REIT JV*
- HEPS declined 26.74% to 47.71 cps (August 2016: 65.13 cps)
- Core HEPS increased 18.38% to 77.10 cps (August 2016: 65.13 cps)
  ** Core headline earnings per share ("Core HEPS") – headline earnings per share before elimination of unrealised profits from development of units to the REIT JV*
- The Group is proud to announce that it was fatality free, despite growth in both employees and sub-contractors

Building legacies. Changing lives

Commentary

Nature of business

Calgro M3 is a property developer focused on large-scale integrated residential developments (development business), real estate investments (rental units) and the development and establishment of private memorial parks.

Introduction

The Integrated Residential Development business continued its focus on the private sector during the first six months of the financial year, increasing production on the AFHCO Calgro M3 Consortium (Pty) Ltd ("REIT JV") units, and other private sector units, but experienced difficult trading conditions. Grave sales in the Calgro M3 Memorial Parks business improved, increasing by 41.0% from the previous six-month period ending 28 February 2017.

Overall growth for the development business during the first six months was subdued because of several factors:

- Delays in capital debt raising, which took longer to conclude than expected due to the challenging current economic environment;
- Social unrest, especially in Gauteng, also impacted performance with delays, standing time and vandalism being experienced at almost all the Gauteng sites. Construction activities have however recommenced on all sites;
- Construction slowdown due to the prevailing water shortage in the Western Cape.

The development business is fortunate to have 13 projects in the ground, contributing towards revenue and profits, which reduced the impact of these delays.

It is the intention of the Group to split its operations into three different business units, each with its own senior management team taking responsibility for the day-to-day operation of the relevant business. The Integrated Residential Development business was the first identified to undergo this transition and upon implementation will be operating under the leadership of Group Executive, Manda Nkuhlu.

The Group remains firmly committed to achieving the goal of equal profit contribution from our three businesses, being integrated residential developments (which includes professional services), real estate investments (rental units) and Memorial Parks, over the medium to long term.

The integrated residential development business is investigating the possible sale or exit of non-core strategic land parcels and projects where the risk profile has changed over time and is no longer in line with acceptable tolerance levels. We do not anticipate any material losses from these transactions.

Over the past six months, time was invested in identifying and securing new private sector focused projects that are strategically better located and which will allow for more effective application of available capital, to support future growth and diversification. These will, however, only be reflected in the secured pipeline once agreements are concluded. The Group remains cautious in terms of tying up too much capital in long-term projects, especially with the increased focus on the private sector that will require all infrastructure to be installed and funded from the balance sheet.

Management continues to investigate structures to acquire properties and projects without large upfront capital investment, which is usually associated with a traditional outright purchase. These structures have been successfully employed in the current and prior years, allowing Calgro M3 to reduce overall cash flow risk.

Despite the challenges, the Group remains strategically positioned to ensure risk is optimally mitigated and managed in these uncertain times, which sets a solid foundation for future growth. While navigating this difficult current economic and political climate, as well as diversifying risk across sectors and businesses, we remain focused on maintaining the underlying theme of property development that is synonymous with Calgro M3.

Additional investments in the real estate investments and the Memorial Parks segments are well under way to support this growth. Given the political and economic landscape in South Africa, the short-term goal will be to build each of these businesses responsibly, while remaining watchful of potential pitfalls.

Water-saving initiatives

Calgro M3 is driven by the principle of making South Africa a better place. This goes hand in hand with building a sustainable business that will continue having an impact in many years to come. Protecting our environment is a critical part of this and so the Group made the decision earlier this year to slow down construction in the Western Cape to assist in preserving water. Education programmes with clients are in place to ensure they understand why water conservation is critical to the country and the environment.

The Group is extremely proud of the country wide initiatives it undertook in the past six months to recoup the approximately 8 500 litres of water per unit that it uses through the construction phase, both on and off-site, within three months after completion, from various water saving initiatives introduced throughout its units. Furthermore the Nasrec Memorial Park won the “Landscape Construction” and the “Landscape and Turf Maintenance” Water-Wise Awards at the 2017 South African Landscapers Institute Awards. The Group will continue to develop and implement water-saving initiatives throughout the project cycle.

Sustainability

Calgro M3 is in the process of reassessing all its sustainability policies to ensure compliance with the ever-changing environment that the Group operates in. Independent consultants have been appointed to assist in this process and a full-time sustainability officer will be appointed to ensure best practice throughout the Group at all times. The sustainability focus will stretch further than just water, and will also include energy, transport and the general environment.

Operational review

Integrated Residential Developments

During the period under review 7 473 houses were under construction and a further 1 057 (completed during the period) were handed over to customers. Due to cash flow pressure, as well as to mitigate risk, infrastructure installation was limited. The business does, however, still have approximately

8 000 additional serviced opportunities available for development within its various projects. Installation of new infrastructure will be a priority, once the working capital is secured (see International Funding section for additional information). With 13 of our residential projects in the ground, 11 of these projects contributed towards the Group's revenue, providing a well-diversified portfolio of projects.

Witpoortjie, Fleurhof and the South Hills projects were nominated for the prestigious Gauteng Goven Mbeki awards. Belhar was nominated for the Western Cape Goven Mbeki awards in various categories. We are delighted that our projects continue to be positively recognised.

Government remains committed to the roll-out of housing projects, with Calgro M3 well positioned to benefit. The development business is in constant consultation with Government on various future strategies, in an endeavour to assist with the housing delivery shortfall.

The development business has created critical scale in the construction of units to the private sector through the development of the first phase rental units for the REIT JV, as well as increased private sector sales. It realised an increase of 42.5% in secured private sector sales compared to the comparable six-month period. In real terms the increase was substantially more, but the tightening of credit criteria by banks and negative consumer sentiment, resulted in some sales failing to materialise. Given market contraction by roughly 11%, the Group is pleased with its market share increase. The "Captain Calgro" marketing campaign now includes educating potential home owners on the possible requirement of a deposit and all other financial elements of the bank's credit process, and this has further contributed to successful sales.

The larger construction volumes will enable Calgro M3 to further benefit from efficiencies as discussed in the financial section. Due to the development business not taking on construction risk, top structure construction only commences when the units are sold and therefore most of these increased sales will only reflect in the financial performance once the units are constructed over the next couple of months.

All town planning approvals have been received on Vista Park (Bloemfontein), Kwa Nobuhle (Port Elizabeth) and Bridge City (KwaZulu-Natal) with Bridge City being the first of the three new projects to go to ground in the next six months.

Construction activities in Cape Town have continued despite the continuing water shortages, with a focus on dry works rather than wet works. The water shortages are monitored closely. The development business's water saving initiatives will allow both forms of wet and dry construction to resume to previous levels as soon as November 2017.

The business has decided to reduce its reliance on external contractors in the Western Cape. This will serve to recoup some of the time lost, further drive efficiencies, capitalising on the increased scale of projects and efficient processes already implemented in Gauteng and the Free State. The result will be the reduction in cost and maximising of profitability on these projects, without increasing the risk profile.

Real Estate Investments (rental units)

The Real Estate Investments business presents new opportunities in an environment where housing is a necessity, but affordability remains a challenge. In the past Government Housing Policies favoured ownership, but the importance of the rental sector is increasingly being acknowledged.

The first 1 372 units of the Phase 1 project in partnership with SA Corporate and AFHCO, consisting of 3 852 units in total, are nearing completion with handover due before end of February 2018 and the majority of the balance to be handed over in the first six months of the next financial year.

Memorial Parks

The Memorial Parks business continues to grow, and its contribution increased to 3.2% of the Group's profits. With grave sales steadily increasing on a weekly basis, and up 41.0% from the previous six-month period ending 28 February 2017, we are confident that this business will begin to contribute more significantly to profits in the full year. A sales call centre and free WiFi with contact capturing are just a few of the initiatives being implemented to enhance sales.

Plans to expand the business into two more provinces are well under way and the Group hopes that an announcement will soon be made in this regard. It is critical for Memorial Parks to have a larger footprint across South Africa to enable the business to be linked to insurance policies that are sold. This will assist in unlocking and fast-tracking growth.

The Nasrec Memorial Park won a third award in 2017 from the South African Landscapers Institute namely "Specialised Landscaping Construction".

Financial review

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

The impact of this unrealised profit is material to the financial performance and has necessitated the Group to institute new metrics to measure operational performance between reporting periods, as well as to give all stakeholders an indication of the Group's performance that is consistent between periods. The below three metrics are described as follows:

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

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

Core operating profit – operating profit before elimination of unrealised profits from development of units for the REIT JV as well as items that are considered once-off in nature.

Revenue reconciliation (R'000)	**August 2017**	August 2016	%
Revenue	**1 010 069**	720 233	40.24
Reversal of unrealised profit adjustment	**47 078**	–	
Adjusted revenue	**1 057 147**	720 233	46.78

The increase of 40.24% in revenue to R1,010 billion (2016: R720 million) is in line with the increase in combined revenue (Group revenue including joint ventures) of 40.84% to R1,302 billion (2016: R925 million). Increased operations on the construction of the units for the REIT JV, as well as construction of private sector units across projects, have contributed to the growth in revenue and combined revenue.

The construction of units for the private sector that were sold in the prior financial year, but on which construction was only started late in the previous financial year, has contributed substantially to this increase. Private sector sales demand remains strong, with the Group reflecting an increase of 42.5% in the number of private sector sales compared to the same period in the previous year and 21.5% increase compared to the previous six months ending 28 February 2017.

Gross profit % reconciliation (R'000)	**August 2017**	August 2016
Gross profit	**134 129**	180 902
Reversal of unrealised profit adjustment	**47 078**	–
Adjusted gross profit	**181 207**	180 902
Adjusted gross profit %	**17.14**	25.12

The adjusted gross profit percentage came under pressure due to market related sales discount granted on bulk sale deals including units to the REIT JV. The increased construction capacity throughout the Group only reached full efficiency in June 2017. The efficiencies will increase over time as buying power, volume rebates and better prices start being achieved. New operational processes are being implemented to assist in obtaining these efficiencies. The Group expects the margin to normalise in the next 12 months as the new processes are implemented.

Administrative expenses for the period decreased by 13.1% to R58.8 million (2016: R67.7 million). This is in line with Calgro M3's strategy of efficiencies and increased reliance on information technology. The comparison between periods is, however, distorted by a value added tax ("VAT") penalty of R5.6 million included in the August 2016 results, but which was disputed and reversed at February 2017. Administrative expenses are expected to increase substantially over the next six months' due to:

- Increased management and marketing capacity in the Memorial Park business;
- Rebranding and marketing campaigns aimed at the private sector;
- Captain Calgro educational campaign rolled out in additional provinces;
- 24/7 call centre for marketing and after-sales support with the focus on client satisfaction;
- Information technology (IT) infrastructure to support the future growth of the Group; and
- The above expenditure is necessary to support growth and ensure that sufficient capacity and controls are in place to ensure the roll-out of the R27 billion pipeline.

Core operating profit reconciliation (R'000)	August 2017	August 2016	%
Operating profit	**79 469**	114 413	(30.54)
Reversal of unrealised profit adjustment	**47 078**	–	
Once-off items (VAT penalty)	**–**	5 550	
Core operating profit	**126 547**	119 963	5.49

Core operating profit increased 5.49% for the period to R126.5 million (2016: R120.0 million).

Earnings per share and headline earnings per share reconciliation (R'000)	August 2017	August 2016	%
Profit attributable to owners of parent	**61 144**	82 754	
Unrealised profit (net of tax and share of profits of JVs)	**37 663**	–	
Core profit attributable to owners of parent ("Core Earnings")	**98 807**	82 754	
Loss/(profit) on disposal of property, plant and equipment and computer software	–	25	
Core profit attributable to owners of parent ("Core Headline Earnings")	**98 807**	82 779	
Weighted average number of ordinary shares in issue	**128 150 069**	127 100 000	
Basic earnings per share (cents per share)	**47.71**	65.11	(26.72)
Headline earnings per share (cents per share)	**47.71**	65.13	(26.74)
Core earnings per share (cents per share)	**77.10**	65.11	18.42
Core headline earnings per share (cents per share)	**77.10**	65.13	18.38

Basic earnings per share ("EPS") decreased by 26.72% to 47.71 cents per share (2016: 65.11 cps). Similarly, headline earnings per share ("HEPS") decreased by 26.74% to 47.71 cents per share (2016: 65.13 cps). The new metrics which provide additional information on the Group's performance, core earnings per share ("Core EPS"), increased by 18.42% to 77.1 cents per share (2016: 65.11 cps), as well as core headline earnings per share ("Core HEPS"), which increased by 18.38% to 77.1 cents per share (2016: 65.13 cps).

Construction contracts increased by R330.2 million over the 6 month period, reflecting the increase in construction and development of units for the REIT JV, as well as for the private sector. The construction contracts balance is expected to increase even further until these units are completed, registered and handed over to the purchaser. The decrease in inventories of R86.6 million is the net effect of the Jabulani Parcel C and K units starting construction and being transferred to construction contracts and new investments, of which investment into the La Vie Nouvelle development of R13.7 million and the Bridge City development of R14.3 million, was the most substantial.

The net debt to equity ratio increased over the period to 0.62 (February 2017: 0.42) as a result of cash on hand invested in development of projects. Management believes that there is still sufficient room to increase the gearing of the Group to support the increase in operations and the increased exposure to the private sector. The Group is concluding several transactions that will result in gearing increasing to 1.0 in the next few months.

Cash flow from operations came under pressure during the period due to increased construction of REIT JV and private sector units. Positive cash flows are expected once the units are completed and handed over. The Group has managed to refinance all notes on the Bond Exchange programme that matured during the period and ended with an increase in capital raised of R14 million.

International funding

The Group is proud to announce that it has secured its first international funding, a facility for €25 million on an unsecured basis for a period of six years. It is the intention of the Group to borrow in South African Rands and not to be exposed to any foreign exchange risk on this facility. This facility is, however, suspensive on the contractual compliance with international Health, Safety and Environmental Standards as regulated by the lender. It is anticipated that final contracts will be signed before the end of October 2017 after which further details will be provided. The first disbursement is anticipated in December 2017.

Prospects

Going forward, we recognise that there will be a tightening of spend across the economy. However, the need for housing and rental opportunities is vast and given the strong pipeline, Calgro M3 remains confident that the business remains in a strong position to continue selling housing units, while at the same time growing the rental business.

The Memorial Parks business has shown improved growth and coupled with the marketing drive and continued expansion, we are confident, will continue to show steady results and provide the Group with strong annuity income.

End-user finance for our products may be at risk in future and the Group is working hard to find ways to mitigate this risk. We are, however, still able to secure 100% bonds for our clients across our products and banks have indicated that they do not foresee this changing in the near future.

The same applies to finance at a Group level, which will culminate in the availability of capital and not as much on the cost thereof. The Group will continue to assess local and international markets to secure additional long-term instruments, as well as renew expiring facilities, but at this stage all indications are that sufficient funding will be available.

With the construction and infrastructure currently being installed for 7 473 homes, the Group through its development business is not only assisting with the eradication of the housing backlog, but also assisting with job creation. Various training and skills development programmes have been launched and will be enhanced in the next six to twelve months to support the upliftment of our people and drive sustainability in the medium to long term.

The Group believes the biggest risk mitigation strategy for its businesses is its management team's hands-on approach and ability to quickly adapt to change. We are confident that our continued success will be determined by this, as well as our ability to make decisions under pressure.

Calgro M3 is making considerable progress on empowerment and in transforming the business. The Group is currently a Level 4 Contributor in terms of the new generic scorecard and has worked hard on management, procurement and enterprise development to improve this, with the next rating due mid-2018.

Each business in the Group has its own challenges and risk profile, but management remains confident that each of these risks are being addressed and that the platform to deliver quality affordable homes, rental units and Memorial Parks that offer the best client service and value for money products, are in place.

Disclaimer: Statements contained in this announcement, regarding the prospects of the Group, have not been reviewed or audited by the Group's external auditors.

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 and operational management

There were no changes to the Board of Directors during the six-month period.

Appreciation

There is no doubt that the past six months was challenging, even more so than the previous 12 months, both economically and in terms of social unrest. The tenacity, commitment and hard work of our staff and senior management is appreciated even more in times such as this. We are proud that our new business management teams have taken to the task so easily and that we as a Group continue to build a business from the heart, doing the right thing, and assisting Government in ensuring there are houses for the people of our country. The awards received during the year are dedicated to our staff, for the hard work and commitment shown over the years.

We would like to thank the Board for their guidance, wisdom and support, as well as our fellow executives for the leadership role they execute across the business. We would also like to say a special word of thanks to all our stakeholders for their continued support.

Wikus Lategan
(Chief Executive Officer)

Waldi Joubert
(Financial Director)

Johannesburg
16 October 2017

Unaudited Condensed Consolidated Statement of Comprehensive Income

R'000	Notes	**Unaudited six months 31 August 2017**	Unaudited six months 31 August 2016	Audited year ended 28 February 2017
Revenue	1	**1 010 069**	720 233	1 554 680
Cost of sales		**(875 940)**	(539 331)	(1 220 517)
Gross profit		**134 129**	180 902	334 163
Other income		**5 346**	1 165	16 600
Other expenses		**(1 210)**	–	(3 700)
Administrative expenses		**(58 796)**	(67 654)	(118 098)
Operating profit		**79 469**	114 413	228 965
Share of profit of joint ventures and associates – net of tax		**5 524**	5 199	6 269
Net finance income/(cost)		**42**	(1 011)	(1 925)
Profit before tax		**85 035**	118 601	233 309
Taxation		**(24 317)**	(35 469)	(63 176)
Profit after taxation		**60 718**	83 132	170 133
Profit after taxation and other comprehensive income attributable to:				
– Owners of the parent		**61 144**	82 754	169 156
– Non-controlling interests		**(426)**	378	977
		60 718	83 132	170 133
Profit after taxation attributable to:				
Equity holders of the Company		**61 144**	82 754	169 156
Earnings per share – cents	2	**47.71**	65.11	133.06
Headline earnings per share – cents	2	**47.71**	65.13	133.08
Fully diluted earnings per share – cents	2	**46.35**	63.96	129.00
Fully diluted headline earnings per share – cents	2	**46.35**	63.98	129.02

Unaudited Condensed Consolidated Statement of Financial Position

R'000	Notes	Unaudited six months 31 August 2017	Unaudited six months 31 August 2016	Audited year ended 28 February 2017
Assets				
Non-current assets				
Property, plant and equipment		**5 800**	3 854	5 806
Deferred income tax asset		**21 164**	12 500	14 847
Intangible assets		**159 673**	159 016	159 690
Investment in joint ventures and associates		**17 872**	11 279	12 349
Investment property		**6 519**	–	6 519
		211 028	186 649	199 211
Current assets				
Inventories	3	**509 347**	363 424	595 990
Construction contracts and work in progress	4	**1 717 732**	1 151 033	1 387 537
Trade and other receivables	5	**290 122**	235 670	276 198
Other current assets		**59 073**	34 351	45 054
Cash and cash equivalents		**57 399**	70 545	240 765
		2 633 673	1 855 023	2 545 544
Total assets		**2 844 701**	2 041 672	2 744 755
Equity and liabilities				
Equity				
Stated capital		**116 256**	96 022	116 256
Share-based payment reserve		**71 447**	61 263	60 847
Retained income		**907 224**	759 677	846 079
		1 094 927	916 962	1 023 182
Non-controlling interests		**(527)**	(700)	(101)
Total equity		**1 094 400**	916 262	1 023 081
Non-current liabilities				
Deferred income tax liability		**327 314**	274 636	302 358
		327 314	274 636	302 358
Current liabilities				
Borrowings		**585 751**	525 503	571 646
Other current liabilities	6	**837 236**	325 271	847 670
		1 422 987	850 774	1 419 316
Total liabilities		**1 750 301**	1 125 410	1 721 674
Total equity and liabilities		**2 844 701**	2 041 672	2 744 755
Net asset value per share – cents		**854.00**	720.90	798.35
Net tangible asset value per share – cents		**729.40**	595.79	673.73

Unaudited Condensed Consolidated Statement of Cash Flows

R'000	**Unaudited six months 31 August 2017**	Unaudited six months 31 August 2016	Audited year ended 28 February 2017
Cash generated from operating activities			
Cash generated from operations	**(150 020)**	130 953	292 068
Finance income	**3 441**	9 129	16 727
Finance cost	**(34 664)**	(31 835)	(63 167)
Tax paid	**(5 203)**	(14 022)	(7 444)
Net cash generated from operating activities	**(186 446)**	94 224	238 184
Cash flows invested in investing activities			
Purchase of property plant and equipment	**(451)**	(520)	(867)
Purchase of intangible assets	**–**	–	(52)
Acquisition of business	**(750)**	–	(4 500)
Acquisition of subsidiary	**–**	(93 000)	(93 000)
Loans advanced to joint ventures and associates	**(9 724)**	(3 674)	(18 472)
Net cash invested in investing activities	**(10 925)**	(97 194)	(116 891)
Cash flows from financing activities			
Proceeds of borrowings	**57 005**	104 000	239 809
Repayment of borrowings	**(43 000)**	(117 063)	(206 915)
Equity received in advance	**–**	6 507	6 507
Net cash from financing activities	**14 005**	(6 556)	39 401
Net (decrease)/increase in cash and cash equivalents	**(183 366)**	(9 526)	160 694
Cash and cash equivalents at the beginning of the year	**240 765**	80 071	80 071
Cash and cash equivalents at end of the year	**57 399**	70 545	240 765

Unaudited 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 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
Other comprehensive income	–	–	–	–	–	–
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
Balance at 1 March 2017	**116 256**	**60 847**	**846 080**	**1 023 183**	**(101)**	**1 023 082**
Share-based payment expense	**–**	**10 600**	**–**	**10 600**	**–**	**10 600**
Comprehensive income						
Profit for the period	**–**	**–**	**61 144**	**61 144**	**(426)**	**60 718**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive income	**–**	**–**	**61 144**	**61 144**	**(426)**	**60 718**
Balance at 31 August 2017	**116 256**	**71 447**	**907 224**	**1 094 927**	**(527)**	**1 094 400**

Unaudited Condensed Segment Report for the Group

R'000	Property Development	Professional Services	Memorial Parks	Total
August 2017				
Total segment revenue	**1 004 870**	**1**	**5 198**	**1 010 069**
Revenue from joint ventures and associates	**227 335**	**–**	**–**	**227 335**
Revenue from third parties	**777 535**	**1**	**5 198**	**782 734**
Revenue of joint ventures and associates	**292 228**	**–**	**–**	**292 228**
Combined revenue	**1 297 098**	**1**	**5 198**	**1 302 297**
Operating profit	**83 537**	**(4 458)**	**2 932**	**82 011**
Finance costs	**(10 825)**	**–**	**(140)**	**(10 965)**
Adjusted profit before tax	**72 712**	**(4 458)**	**2 792**	**71 046**
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 2017				
Assets per segment	**2 252 285**	**8 045**	**135 309**	**2 395 639**
Goodwill	**154 801**	**4 155**	**695**	**159 651**
Investment property	**–**	**–**	**6 519**	**6 519**
Property, plant and equipment	**–**	**–**	**2 391**	**2 391**
Inventories	**383 642**	**–**	**125 704**	**509 346**
Work in progress	**–**	**3 890**	**–**	**3 890**
Construction contracts	**1 713 842**	**–**	**–**	**1 713 842**
February 2017				
Assets per segment	2 014 212	8 045	129 844	2 152 101
Goodwill	154 801	4 155	695	159 651
Investment property	–	–	6 519	6 519
Property, plant and equipment	–	–	2 404	2 404
Inventories	475 764	–	120 226	595 990
Work in progress	–	3 890	–	3 890
Construction contracts	1 383 647	–	–	1 383 647

Additional Information

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

R'000	Unaudited six months 31 August 2017	Unaudited six months 31 August 2016
Adjusted profit before tax for reportable segments	**71 046**	105 969
Group overhead cost	**(2 542)**	(1 695)
Share of profit of joint ventures and associates	**5 524**	5 199
Total before finance income/(cost)	**74 028**	109 473
Net finance income/(cost)	**11 007**	9 128
Profit before tax	**85 035**	118 601

Reportable segment assets are reconciled to total assets as follows:

R'000	Unaudited six months 31 August 2017	Audited year ended 28 February 2017
Segment assets for reportable segments	**2 395 639**	2 152 101
Unallocated:		
Deferred tax	**21 164**	14 847
Property, plant and equipment	**3 409**	3 401
Intangible assets excluding goodwill	**22**	40
Investment in joint ventures and associates	**17 873**	12 349
Loans to joint ventures	**36 174**	26 451
Current tax receivable	**22 899**	18 603
Trade and other receivables	**290 122**	276 198
Cash and cash equivalents	**57 399**	240 765
Total assets per the consolidated statement of financial position	**2 844 701**	2 744 755

Reportable segment liabilities are reconciled to total liabilities as follows:

R'000	Unaudited six months 31 August 2017	Audited year ended 28 February 2017
Segment liabilities for reportable segments	**–**	–
Unallocated:		
Borrowings	**585 751**	571 646
Deferred tax	**327 314**	302 358
Current tax	**88**	9
Trade and other payables	**837 148**	847 661
Total liabilities per the consolidated statement of financial position	**1 750 301**	1 721 674

Notes

R'000	Unaudited six months 31 August 2017	Unaudited six months 31 August 2016	Audited year ended 28 February 2017
1. Revenue			
Sale of completed units	**6 269**	1 140	14 090
Construction contracts	**998 601**	717 095	1 536 123
Total Construction contract revenue	**1 045 679**	717 095	1 537 299
Reversal of unrealised profit adjustment*	**(47 078)**	–	(1 176)
Professional services	**1**	912	150
Memorial parks burial rights	**4 872**	1 067	3 850
Memorial parks maintenance	**115**	20	48
Memorial parks burial services	**211**	–	419
	1 010 069	720 233	1 554 680

* *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 have a 49% shareholding that is eliminated on consolidation.*

R'000	Unaudited six months 31 August 2017	Unaudited six months 31 August 2016	Audited year ended 28 February 2017
2. Earnings reconciliation			
Determination of headline and diluted earnings			
Attributable profit	**61 144**	82 754	169 156
Loss on disposal of property	**–**	25	25
Headline and diluted headline earnings	**61 144**	82 779	169 181
Determination of earnings and diluted earnings			
Attributable profit	**61 144**	82 754	169 156
Earnings and diluted earnings	**61 144**	82 754	169 156
Number of ordinary shares ('000)	**128 150**	127 100	128 150
Weighted average shares ('000)	**128 150**	127 100	127 126
Fully diluted weighted average shares ('000)	**131 918**	127 384	131 127
3. Inventories			
Opening balance	**595 990**	453 093	453 093
Additions (Net of transfers to construction contracts)	**(89 165)**	(99 575)	137 668
Borrowing costs capitalised	**10 146**	10 994	21 398
Disposals	**(7 624)**	(1 088)	(16 169)
Closing balance	**509 347**	363 424	595 990

R'000	**Unaudited six months 31 August 2017**	Unaudited six months 31 August 2016	Audited year ended 28 February 2017
4. Construction contracts and work in progress			
The aggregate costs incurred and recognised profits to date	**9 022 833**	6 740 392	7 987 134
Less: Progress billings	**(7 322 485)**	(5 608 260)	(6 609 752)
Net statement of financial position balance for ongoing contracts	**1 700 348**	1 132 132	1 377 382
Excess billings over work done classified under trade and other payables	**13 494**	6 118	6 265
Statement of financial position balance for ongoing contracts	**1 713 842**	1 138 250	1 383 647
Work in progress	**3 890**	12 783	3 890
Total Construction contracts and work in progress	**1 717 732**	1 151 033	1 387 537
5. Trade and other receivables			
Trade receivables and retention debtors	**233 920**	214 177	213 332
Trade receivables – third parties	**10 739**	48 287	11 434
Retention debtors – third parties	**13 864**	4 700	7 021
Trade receivables – related parties	**134 227**	79 685	119 526
Retention debtors – related parties	**1 642**	5 314	1 903
Trade receivables – land sales	**73 448**	76 191	73 448
Value Added Tax	**31 974**	1 753	44 137
Other receivables	**15 836**	7 471	9 578
Share appreciation rights settlement prepayment	**873**	5 675	1 747
Amounts due from share scheme – related parties	**7 116**	6 150	7 001
Securing deposits	**403**	444	403
	290 122	235 670	276 198

R'000	Unaudited six months 31 August 2017	Unaudited six months 31 August 2016	Audited year ended 28 February 2017
6. Other current liabilities			
Trade payables	**272 446**	191 404	227 610
Trade payables – related parties	**9 965**	–	9 965
Retention creditors	**21 688**	26 276	20 546
Accrued expenses	**11 839**	20 896	19 454
Executive share scheme liability	**34 552**	38 836	34 552
Share appreciation rights liabilities	**2 316**	1 809	1 976
Value added tax	**829**	5 433	13 970
Income received in advance	**365**	2 235	365
Deferred revenue	**8 641**	–	7 815
Deposits received	**214 044**	2 500	287 455
Land purchase liability – balance of purchase price for acquisition of Jabulani and Kwa Nobuhle land	**208 386**	–	189 730
Other payables – balance of purchase price for acquisition of Fourways Private Memorial Parks	**13 665**	–	14 665
Other payables – related parties	**24 918**	29 292	13 293
Excess billings over work done	**13 494**	6 118	6 265
Current income tax liabilities	**88**	472	9
	837 236	325 271	847 670

R'000	Unaudited six months 31 August 2017	Unaudited six months 31 August 2016
7. Related party transactions		
Compensation paid to key employees and personnel	**16 112**	20 080
Finance income from related parties	**6 810**	4 895
Contract revenue received from joint ventures	**227 335**	42 511
Services fees received from joint ventures	**–**	858

8. Basis of preparation

The condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standard, (IAS) 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act of South Africa. The accounting policies applied in the preparation of these interim financial statements are in terms of International Financial Reporting Standards and are consistent with those applied in the previous consolidated annual financial statements.

The consolidated financial statements were internally compiled by UK Kissoon Singh CA(SA) and M Esterhuizen CA(SA) under the supervision of WA Joubert CA(SA) and were approved by the Board on 13 October 2017.

9. Independent audit

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

10. Financial instruments

The carrying value of all financial instruments are equal to the fair value of those instruments at 31 August 2017 with the exception of borrowings. The carrying value of borrowings at 31 August 2017 was R585.8 million, with a corresponding fair value of R596.3 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.

11. Bond Exchange

During the period ended 31 August 2017, the Group repaid R43 million in borrowings that matured, as well as raised a total of R57 million in a combination of one and three-year notes.

Subsequent to 31 August 2017, another R136 million in a combination of one and three-year instruments were successfully raised as well as R49 million repaid that matured.

Total finance cost incurred for the period amounted to R34.7 million (August 2016: R31.8 million) of which R23.7 million (August 2016: R21.8 million) was capitalised to inventory and construction contracts.

12. 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.

Notes

Directors

PF Radebe (Chairperson)*#

WJ Lategan (Chief Executive Officer)

FJ Steyn

WA Joubert (Financial Director)

W Williams

VJ Klein*#

H Ntene*#

RB Patmore*#

ME Gama*#

BP Malherbe*

MN Nkuhlu

HC Cameron*#

* *Non-executive* # *Independent*

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Rosebank Towers

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Rosebank

2196

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Sponsor

Grindrod Bank Limited

Auditors

PricewaterhouseCoopers Inc.

Website

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CALGRO M3

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