Unaudited condensed consolidated interim results

for the six months ended 31 August 2018

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

Acquisition of Durbanville and Bloemfontein (Avalon) Memorial Parks

Acquisition of minority shareholding in Nasrec Memorial Park

Memorial Park sales increased by **128.24%**

Basic earnings per share ("EPS") decreased by 50.16% to **23.78** cents per share ("cps")

Headline earnings per share ("HEPS") decreased by 93.48% to **3.11** cps

Level 1 B-BBEE contributor

Second tranche of international funding secured: **R109 million**

Building legacies. Changing lives

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Commentary

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, Residential Rental Investments and the development and management of Memorial Parks.

Background to impacts on the business

The period under review was one of the most difficult ever experienced due to:

(1) Macro and micro economic uncertainty coupled with uncertainty pertaining to land expropriation;
(2) Scottsdene and Fleurhof projects being shut down as a result of "illegal occupation" with additional security and repair cost amounting to approximately R65.2 million;
(3) Major electrification challenges on Fleurhof which resulted in standing time cost of roughly R14.5 million;
(4) Impact of the adoption of IFRS 15;
(5) Drought in the Western Cape; and
(6) Cancellation of the executive share scheme and corresponding fast-tracked expense of R44.0 million.

A variation order of R93.3 million was received on Fleurhof that slightly offset the impact of the above.

The above challenges had a negative impact on our operational cash flow, leading to the deliberate slowdown in levels of activity on other sites.

Despite all of these uncertainties and challenges, management has worked tirelessly to ensure that the Company has:

A healthy balance sheet	10 projects in the ground at various phases	Expanded its Memorial Parks business

It is important to note that neither the accounting change for revenue recognition (based on the principles of IFRS 15), nor the various current short-term challenges in the operational environment have a long-term impact on the underlying fundamentals of the business or any of its integrated development projects.

Value

Management's assessment on the net tangible asset value of R3.6 billion, excluding approximately 600 000 m^2 bulk retail, commercial and industrial properties across the portfolio (see page 6 of the Integrated Annual Report 2018 available on the website: www.calgrom3.com), has not changed and is not affected by the IFRS 15 adjustment.

Our medium to long-term **commitment to shareholders**

Management strategically aligned the Group to ensure we remain committed to the targeted return on equity ("ROE") of 30% over the medium term. Our commitment is based on the following:

Residential Property Development pipeline of **R25.3 billion** with a targeted ROE of 30%

Memorial Parks pipeline increasing to **R2.2 billion** with a targeted ROE > 30%

Real Estate Investment ("REIT") with a targeted ROE of **20.5%** (annual rental yield plus revaluation growth) on an estimated **Group** equity investment of **R4 billion**

Operational review

Residential Property Developments

The development business has 10 projects in the ground, contributing to revenue which has made the impact of delays more manageable. 3 377 units were under construction during the period, while 1 843 units (of which 934 are fully subsidised) were handed over.

With in excess of 8 000 serviced opportunities (refer to table on page 4), the Group remains well positioned to assist Government in the eradication of the housing backlog in times when Governmental budget is available.

Our variable cost model, adopted by our projects, was thoroughly tested during this period where certain sites had to be temporarily closed as a result of the challenges that were experienced. The temporary closure of sites is accompanied by practical execution challenges such as securing a site that is geographically widely spread out. The implementation of the required actions are far more complex and costlier than originally anticipated. Terminating sub-contractor employment in times when employment is scarce, and unemployment is on the rise, was disconcerting and morally challenging to say the least. Even though the scaling back of the variable costing model was not as efficient as management would have liked, lessons were learnt which will ensure that similar actions would be much more systematic and efficient in future.

Commentary (continued)

The primary areas of focus for the Property Development Business remains the roll-out of the existing pipeline, capitalising on the private sector sales drive, enhancing the product offering, while at the same time remaining focused on improving efficiencies. Despite challenges, the Group remains strategically positioned to ensure risk is optimally mitigated and managed in these uncertain times, which creates a solid foundation for future growth.

	Subsidised	GAP/FLISP	Rental	Affordable	Mid to High	Total
Units handed over during the period	934	140	696	67	6	**1 843**
Units under construction as at 31 August 2018	32	850	2 249	154	92	**3 377**
Units sold – construction to commence	955	1 495	235	236	92	**3 013**

Project pipeline – projects in progress/under construction

Project	Total number of units	Under con-struction	Serviced	Services underway	Part serviced and un-serviced	Construction update
32-On-Pine	**59**	–	–	–	59	Expect to go to ground March 2019
Belhar CBD	**3 558**	1 069	2 489	–	–	Construction well underway – should reach full capacity February 2019
Bridge City	**356**	–	–	–	356	Planned commencement January 2019
Fleurhof	**4 416**	1 105	2 365	350	596	Electrification challenges caused delays and the site was closed from May to date
Jabulani CBD	**432**	48	384	–	–	Last phase to commence November 2018
Jabulani Hostels	**325**	64	261	–	–	Delayed
Jabulani parcel K	**1 410**	–	696	714	–	Top structure construction to commence November 2018. Will be slow start with December builders holiday
KwaNobuhle	**12 964**	–	–	–	12 964	Engineer's designs being finalised
La Vie Nouvelle	**191**	92	99	–	–	Construction well underway – should reach full capacity February 2019
Mid to High Cluster land	**255**	–	–	–	255	Alternates being investigated
Scottsdene	**999**	682	317	–	–	Site closed since Easter weekend until mid-October 2018
South Hills	**4 149**	264	1 370	564	1 951	Construction well underway
Tanganani	**11 624**	–	–	–	11 624	Townplanning underway
Umhlanga Hills	**1 376**	–	–	–	1 376	Townplanning underway
Vista Park	**5 320**	–	–	–	5 320	Bulk services commenced
Vredehoek	**260**	–	–	–	260	Heritage commission approval underway
Summerset and Witpoortjie	**5 034**	53	146	–	4 835	Underway – services were delayed due to cash preservation
	52 728	3 377	8 127	1 628	39 596	

Memorial Parks

The Memorial Parks business' sales continued to grow on a monthly basis with 649 grave and niche sales being achieved for the six months under review, compared to 947 for the whole of the previous financial year. Instalment sales were also made during the period, but is only recognised as a sale (and revenue) once the full purchase price is received from the customer. The target for this business for the second six months is to grow sales with a further 80% to 100%.

The national roll-out plan is advancing rapidly, through the acquisition of the Durbanville Memorial Park in Cape Town on 1 March 2018 and the Avalon Memorial Park in Bloemfontein on 1 June 2018. The Eastern Cape and KwaZulu-Natal are targeted provinces for expansion, planned for early in the 2020 financial year.

Residential Rental Investments

696 units were handed over to the Afhco Calgro M3 Consortium (REIT JV) during the past six months. Rental take-up has been slower than expected but is increasing steadily. Management is still confident that its targeted 10.5% rental yield and 6% capital growth, that gives rise to a 10% capital growth on equity, will be achieved as can be seen under the financial section below. Calgro M3 remains confident in the rental market and believes the affordable rental market has immense potential.

This rental market strategy further assists Government in eradicating the housing backlog without exposing the Group to diminishing public sector spending.

The first 40 of 480 units that were acquired from an external developer were handed over to the REIT JV on 15 October 2018. In view of the slow rental uptake referred to above, the hand-over pace of these units was re-negotiated and extended by a further six months to ensure an effective tenanting process. The units will be geared to 60% with no additional cash equity contribution required by Calgro M3. The Group already has sufficient equity into the development to ensure that there is no additional equity contribution required.

Financial review

The financial results for the six-month period ended 31 August 2018 was overwhelmed with several operational challenges and transactions, coupled with changes in accounting standards (outlined in the transitional report published on 27 September 2018). This makes a direct comparison between periods extremely difficult. Please refer to note 3 for details on the effect of the changes in accounting standards.

Statement of comprehensive income

As detailed in the transitional report, IFRS 15 impacted the method and timing of revenue recognition. Revenue comparison between periods presented should, not be performed as the Group has elected not to restate the comparative information as permitted by IFRS 15. Accordingly, the impact of IFRS 15 has been applied using the modified retrospective restatement method allowed under the standard resulting in an adjustment to the Group's opening retained earnings on 1 March 2018. Therefore, comparative information on revenue will not be amended for the impact of IFRS 15. Please refer to note 3 for revenue comparison between the different accounting standards.

Unrealised profit

The Group's financial performance was impacted by the construction of units for the REIT JV, in which Calgro M3 has a 49% shareholding. This shareholding 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 realised in future financial years, once the units are completed, tenanted and the portfolio is revalued.

The impact of this unrealised profit on the financial performance necessitated the institution of new metrics to measure operational performance between reporting periods. This further provides an indication of performance which is then consistent between periods. The three pertinent metrics are described as:

- **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; and
- **Core operating profit** – Operating profit before elimination of unrealised profits from development of units for the REIT JV.

If revenue was accounted for under the previous accounting standards, revenue would have been R657.0 million, resulting in a 34.95% decrease from the R1.010 billion reported in the previous period. Combined revenue (under the previous accounting standards) decreased by 37.4% to R815.7 million (August 2017: R1.3 billion) due to the slowdown in operations as outlined in the operational update above.

The main contributing projects to combined revenue were South Hills at 45.9% (August 2017: 38.5%), Belhar at 8.5% (August 2017: 14.7%) and Fleurhof at 31.1% (August 2017: 20.8%).

The illegal invasion and occupation of units in Fleurhof and Scottsdene resulted in extensive damage and extraordinary high security costs incurred in order to secure the units. These costs (approximately R65.2 million) were expensed or provided for in the period under review. Insurance and related claims were submitted and will be accounted for once confirmation or approval on the amount and timing is received. Total claims submitted are:

- Fleurhof – R36.3 million
- Scottsdene – R21.0 million

In response to the negative impact of the adoption of IFRS 15 and IFRS 9 on the net debt/equity ratio, and the impact that this increased ratio has on the Group's future gearing ability, the participants of the Executive Share Scheme unanimously agreed to forfeit the scheme (even though it is deeply in the money) in the 2019 financial year to enhance the equity of the Group through the reversal of the share-based payment reserve to retained earnings. The cancellation of the scheme resulted in the remaining expense on the scheme being fast-tracked through profit and loss in the current year, increasing administrative expenses.

Commentary (continued)

The share-based payment reserve of R118 million, after the acceleration of the expense (February 2018: R74.1 million) was reversed to retained income after the cancellation of the scheme.

The additional increase in administrative expenses of 55.51% from the previous period is due to an increase in:

- Marketing and advertising* – 55.82% (increase from R5.2 million to R8.1 million), being in line with the strategy to increase open market residential and Memorial Park sales.
- Salaries and wages – 25.0% (increase from R22.3 million to R27.9 million) – Increased staff capacity which includes additional senior management and professional appointments, health, safety and environmental staff as well as site-based employees. Capacity building began in September 2017, leaving a mismatch between periods. Revenue has not yet evidenced a corresponding increase, due to the primary focus being placed on systems and efficiencies.
- Professional fees – 303.31% (increase from R1.6 million to R6.6 million) arising from professional capacity created to assist with project management mentoring, land invasions as well as an electrical specialist for Fleurhof.

Finance income continued to increase as a result of the increase in debtors and shareholder loan balances (on which interest is being earned) on the South Hills, Witpoortjie and Tanganani projects, which are all accounted for as joint ventures ("JVs") within the Group. Finance income is also earned on the loan to the Afhco Calgro M3 Consortium. The increase in the loan balance by R147.1 million to R249.4 million (February 2018: R102.3 million) represents the Group's equity contribution that will convert to equity before the end of the 2019 financial year. This is for the units completed and handed over to the REIT JV during the period.

The share of profit of joint ventures and associates is mainly attributable to the South Hills joint venture. This profit recognition was also impacted by IFRS 15 within the joint venture itself. The total equity accounted profit on 1 March 2018 (once IFRS 15 opening balance adjustments were made), was a mere R249 683. Total profit after tax in South Hills at 31 August 2018 was R26.4 million, of which the Group accounted 42.5%, being R8.6 million after the elimination of unrealised profit. Outstanding debtor balances to South Hills were settled after 31 August 2018.

The South Hills project now has a total of 222 affordable units, 536 GAP/FLISP and 612 fully subsidised opportunities available where services are fully installed.

The finance cost expense has increased largely due to increased working capital requirements and the cessation of interest capitalisation on Memorial Parks.

Basic earnings per share ("EPS") decreased by 50.16% to 23.78 cps (August 2017: 47.71 cps). Similarly, headline earnings per share ("HEPS") decreased by 93.48% to 3.11 cps (August 2017: 47.71 cps). The new metrics introduced in the prior financial year provide additional information on the Group's performance. Core earnings per share ("Core EPS") decreased by 82.62% to 13.40 cps (August 2017: 77.10 cps), and core headline earnings per share ("Core HEPS") decreased by 109.43% to -7.27 cps (August 2017: 77.10 cps).

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* *Calgro M3 is still receiving 100% bonds from all the major banks but tightening on credit criteria is influencing the approval and conversion rate.*

R	August 2018	August 2017
Core earnings per share		
Profit attributable to shareholders	**30 473 319**	61 144 217
Add: (Realised)/unrealised profit (net of tax and share of profits of JVs)	**(13 298 054)**	37 662 687
Core profit attributable to owners of parent ("core earnings")	**17 175 265**	98 806 904
Weighted average number of ordinary shares in issue	**128 150 069**	128 150 069
Core earnings per share (cents per share)	**13.40**	77.10
Core headline earnings per share		
Profit used to determine headline earnings per share	**3 984 716**	61 144 217
Add: (Realised)/unrealised profit (net of tax and share of profits of JVs)	**(13 298 054)**	37 662 687
Core Headline profit attributable to owners of parent ("core headline earnings")	**(9 313 338)**	98 806 904
Weighted average number of ordinary shares in issue	**128 150 069**	128 150 069
Core headline earnings per share (cents per share)	**(7.27)**	77.10

The earnings on the residential rental investments is split between the interest received and equity accounting due to the shareholder loan that has not yet been converted to equity.

Statement of financial position

The Group acquired the Durbanville Memorial Park in Cape Town and the Avalon Memorial Park in Bloemfontein in the past six months. The acquisitions resulted in an increase in investment property, property, plant and equipment, investments (not for profit company/restricted investments), inventories and trade and other payables.

The restricted investment is the cash investment in a fully registered non-profit organisation ("NPO"), specifically created to ensure the in-perpetuity maintenance of the Durbanville Memorial Park and can only be utilised for this purpose. The Group is currently exploring amending the purpose of the NPO vehicle and converting it into a vehicle to attend to the in-perpetuity maintenance of all the Memorial Parks across the Group. More information will be provided once the Group has completed its investigation.

The Group acquired the remaining shareholding from the minority shareholder in Nasrec Memorial Park (36.5% shareholding) for R63.6 million during this interim period. R15.9 million has been paid and the remaining balance, which carries no interest, will be settled over the next three years in equal annual instalments.

The Group secured R109 million as a second tranche of international funding in June 2018, from Societe De Promotion Et De Participation Pour La Coopération Economique ("Proparco") S.A, a subsidiary of Agence Française De Développement ("AFD"). The balance of the facility was received after certain international environmental and health and safety compliance requirements were successfully achieved.

The net debt to equity ratio increased to 1.16 (February 2018: 0.75). The increase is mainly attributable to the changes in opening retained earnings as a result of the IFRS 15 and IFRS 9 adoption that is detailed in the transitional report and the financial results section of this report. The ratio further increased due to increased debt levels, the acquisition of the minority stake in Nasrec Memorial Park and a cash balance that declined from year-end. This ratio is still below the covenant level of 1.5. The Group's weighted average cost of debt is currently at 11.18%.

	Unaudited six months 31 August 2018	Audited year ended 28 February 2018
Net debt to equity ratio*	**1.16**	0.75
Covenant	**1.5**	1.5
Debt service cover ratio ("DSCR")#	**1.84**	1.57
Covenant	**1.2**	1.2

* *Please refer to page 30 for definitions and calculation.*
\# *Please refer to page 31 for definitions and calculation.*

R62 million of debt that matured was repaid by the Group after 31 August 2018, thereby reducing borrowings to R990.6 million.

Cash flow

Cash flow from operations came under pressure during the period due to the deliberate slowdown in operations by management following the challenges experienced on various projects. This was compounded by slower than anticipated handover of units to the REIT JV, together with the temporary slowdown/closure of the Fleurhof and Scottsdene projects and the associated security and repair costs required due to illegal invasions.

R	Unaudited six months 31 August 2018
Total cost to complete remaining units	**(318 945 653)**
Total funds to be received on completion	**921 515 429**
Less: Deposit	**(158 378 377)**
	444 191 399
Less: Equity contributions to the REIT JV	**(309 276 635)**
Total cash upside upon completion	**134 914 764**

During the period, the Group invested very little into new infrastructure in an effort to reduce pressure on working capital.

What does the future hold for Calgro M3?

Our strategy is to enable the extraction of multiple sources of revenue and profits from business and opportunities along the turnkey property development value chain, which will lead to an improved operating margin blend and the creation of annuity income.

It remains the Group's strategy that the three segments contribute evenly to profitability in the future. This strategy can only be achieved if the capital base grows annually by capitalising and gearing profits, rather than paying dividends. The longer-term aim is to have all operating expenditure for the Group, paid from businesses other than the residential development business. The optimal application of capital between new opportunities, working capital and risk capital will remain an important strategic decision as capital allocations are made across this horizontal value chain.

As reported, our variable costing principle was tested in the last six months. The Group believes that it is critical that all residential development business activities are closely monitored and that the ability to make quick decisions to manage and control risk will be instrumental in reducing the potential impact thereof.

The Group is currently only investigating some memorial parks in Tshwane and KwaZulu-Natal, one new residential development project as well as some potential properties to be acquired and developed for the REIT. The internal focus is on rolling out the current projects that the Group has secured in its pipeline. Alternative uses for some of the mid to high-end land parcels are being investigated to improve the cash generation cycle, with no anticipated losses from these possible conversions expected.

Transformation goes beyond compliance with legislation and regulation. Our goal is to create a truly transformed organisation where people are empowered to fulfil their purpose. We acknowledge that the broader transformation of society cannot take place unless large companies such as Calgro M3 play a major role therein. We are proud to be a level 1 B-BBEE contributor.

We are expecting the effect of the challenges and delays to continue towards the end of the financial year. Once the challenges are resolved the time required to reach full operational capacity will be three to four months per site. The uncertainties and corresponding increase in security, standing time and holding costs are placing strain on operational cash flows. The board has analysed the cash flows for the Group and will continue to monitor the actual cash flows against the forecast to ensure that appropriate and timeous action is taken should any material deviation occur.

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.

Health, safety and environmental initiatives

Calgro M3 remains committed to health and safety standards of the highest level as well as minimising the negative impact of any operations on the environment. The development and enforcement of policies and procedures is being undertaken by the health and safety manager with assistance from the environmental manager.

The Group is extremely proud to announce that the 2019 financial year to date has been fatality-free.

Board of Directors

During the period George Hauptfleisch was appointed as an independent non-executive director and chairperson of the audit and risk committee, effective 6 June 2018.

Wikus Lategan
Chief Executive Officer

Pumla Radebe
Chairperson

Johannesburg
19 October 2018

Date of announcement: 22 October 2018

Unaudited condensed consolidated statement of comprehensive income

R'000	Notes	Unaudited six months 31 August 2018	Unaudited six months 31 August 2017	Audited year ended 28 February 2018
Revenue	3.3, 3.4.1	**628 612**	1 010 069	1 742 602
Cost of sales		**(524 331)**	(875 940)	(1 472 513)
Gross profit		**104 281**	134 129	270 089
Other income		**30 522**	5 346	12 922
Administrative expenses		**(110 117)**	(58 796)	(131 775)
Net impairment losses on financial and contract assets	3.6.2	**(1 436)**	–	–
Other expenses		**–**	(1 210)	(1 310)
Operating profit		**23 250**	79 469	149 926
Net finance income/(cost)		**(4 246)**	42	12 269
Share of profit of joint ventures and associates – net of tax		**8 211**	5 524	9 561
Profit before tax		**27 215**	85 035	171 756
Taxation		**2 497**	(24 317)	(50 949)
Profit after taxation		**29 712**	60 718	120 807
Other comprehensive income		**–**	–	–
Total comprehensive income		**29 712**	60 718	120 807
Profit after taxation and other comprehensive income attributable to:				
– Owners of the parent		**30 474**	61 144	120 351
– Non-controlling interests		**(762)**	(426)	456
		29 712	60 718	120 807
Profit after taxation attributable to:				
Equity holders of the Company		**30 474**	61 144	120 351
Earnings per share – cents	4	**23.78**	47.71	93.91
Headline earnings per share – cents	4	**3.11**	47.71	90.12
Fully diluted earnings per share – cents	4	**23.78**	46.35	92.00
Fully diluted headline earnings per share – cents	4	**3.11**	46.35	88.29

Unaudited condensed consolidated statement of financial position

R'000	Notes	Unaudited six months 31 August 2018	Unaudited six months 31 August 2017	Audited year ended 28 February 2018
ASSETS				
Non-current assets				
Investment property		**13 444**	6 519	8 879
Property, plant and equipment		**9 684**	5 800	6 163
Intangible assets		**159 690**	159 673	159 664
Financial assets at fair value through profit and loss		**10 607**	–	–
Investment in joint ventures and associates		**32 895**	17 872	41 909
Deferred income tax asset		**2 746**	21 164	23 999
		229 066	211 028	240 614
Current assets				
Loans to joint ventures and associates		**288 348**	36 174	143 422
Inventories	5	**644 484**	509 347	554 397
Current tax receivable		**16 207**	22 899	16 600
Construction contracts	6	**1 319 782**	1 713 842	1 820 974
Work in progress		**–**	3 890	–
Trade and other receivables		**281 053**	290 122	293 739
Cash and cash equivalents		**103 897**	57 399	156 723
		2 653 771	2 633 673	2 985 855
Total assets		**2 882 837**	2 844 701	3 226 469
EQUITY AND LIABILITIES				
Equity				
Equity attributable to owners of the parent				
Stated capital		**116 256**	116 256	116 256
Share-based payment reserve		**–**	71 447	74 056
Retained income		**722 539**	907 224	977 015
		838 795	1 094 927	1 167 327
Non-controlling interests		**1 529**	(527)	355
Total equity		**840 324**	1 094 400	1 167 682
Liabilities				
Non-current liabilities				
Deferred income tax liability		**201 559**	327 314	354 283
		201 559	327 314	354 283
Current liabilities				
Borrowings		**1 052 585**	585 751	889 597
Current income tax liabilities		**632**	88	23
Trade and other payables		**787 737**	837 148	814 884
		1 840 954	1 422 987	1 704 504
Total liabilities		**2 042 513**	1 750 301	2 058 787
Total equity and liabilities		**2 882 837**	2 844 701	3 226 469

Unaudited condensed consolidated statement of cash flows

R'000	Unaudited six months 31 August 2018	Unaudited six months 31 August 2017	Audited year ended 28 February 2018
Cash (utilised in)/generated from operations	**3 565**	(150 020)	(205 839)
Finance income	**3 904**	3 441	6 686
Finance cost	**(47 009)**	(34 664)	(75 747)
Tax refunded/(paid)	**(328)**	(5 203)	(1 478)
Cash (utilised in)/generated from operations	**(39 868)**	(186 446)	(276 378)
Cash flows invested in investing activities			
Purchase of property, plant and equipment	**(4 060)**	(451)	(1 579)
Proceeds from the sale of property, plant and equipment	**–**	–	243
Purchase of investment property	**(4 565)**	–	(2 360)
Purchase of intangible assets	**(39)**	–	(7)
Acquisition of business	**(16 250)**	(750)	(2 500)
Acquisition of subsidiary	**–**	–	52
Increase in investments with joint ventures	**–**	–	(10 000)
Loans advanced to joint ventures and associates	**(136 145)**	(9 724)	(113 381)
Net cash utilised in investing activities	**(161 059)**	(10 925)	(129 532)
Cash flows from financing activities			
Proceeds of borrowings	**255 000**	57 005	516 000
Repayment of borrowings	**(91 000)**	(43 000)	(192 000)
(Repayment)/proceeds from issue of shares for Calgro M3 executive scheme	**–**	–	(2 132)
Transactions with non-controlling Interest	**(15 900)**	–	–
Net cash from financing activities	**148 100**	14 005	321 868
Net (decrease)/increase in cash and cash equivalents	**(52 827)**	(183 366)	(84 042)
Cash and cash equivalents at the beginning of the year	**156 723**	240 765	240 765
Cash and cash equivalents at the end of the year	**103 896**	57 399	156 723

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 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
Balance at 1 March 2018	**116 256**	**74 056**	**977 015**	**1 167 327**	**355**	**1 167 682**
Investment in Calgro M3 Memorial Parks eliminated to equity	**–**	**–**	**(56 850)**	**(56 850)**	**1 936**	**(54 914)**
IFRS 15 adjustment to equity	**–**	**–**	**(317 063)**	**(317 063)**	**–**	**(317 063)**
IFRS 9 adjustment to equity	**–**	**–**	**(29 085)**	**(29 085)**	**–**	**(29 085)**
Share-based payment expense	**–**	**43 992**	**–**	**43 992**	**–**	**43 992**
Share-based reserve released to retained earnings	**–**	**(118 048)**	**118 048**	**–**	**–**	**–**
Comprehensive income						**–**
Profit for the period	**–**	**–**	**30 474**	**30 474**	**(762)**	**29 712**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive income	**–**	**–**	**30 474**	**30 474**	**(762)**	**29 712**
Balance at 31 August 2018	**116 256**	**–**	**722 539**	**838 795**	**1 529**	**840 324**

Unaudited condensed segment report for the Group

August 2018 R'000	Holding company/ unallocated	Residential Property Development	Memorial Parks	Residential Rental Investments	Total
Total segment revenue	–	616 748	11 864	–	628 612
Fleurhof Project	–	245 060	–	–	245 060
Jabulani Project	–	31 998	–	–	31 998
Witpoortjie Project	–	28 910	–	–	28 910
South Hills Project	–	216 427	–	–	216 427
Belhar Project	–	66 975	–	–	66 975
Third parties	–	27 378	11 864	–	39 242
Timing of revenue recognition	–	616 748	11 864	–	628 612
– Point in time	–	94 913	10 578	–	105 491
– Over time	–	521 835	1 286	–	523 121
Combined revenue*	–	775 475	11 864	–	787 339
Total segment revenue	–	616 748	11 864	–	628 612
Revenue of joint ventures and associates	–	158 727	–	–	158 727
Witpoortjie Project	–	13 395	–	–	13 395
South Hills Project	–	145 332	–	–	145 332
Revenue	–	616 748	11 864	–	628 612
Cost of sales	–	(519 119)	(5 212)	–	(524 331)
Gross profit	–	97 629	6 652	–	104 281
Other income	26 489	1 730	2 044	259	30 522
Administrative expenses	(46 117)	(59 036)	(4 964)	–	(110 117)
Net impairment losses on financial and contract assets	–	(539)	–	(897)	(1 436)
Other expenses	–	–	–	–	–
Operating profit	(19 628)	39 784	3 732	(638)	23 250
Finance income	428	14 425	42	10 758	25 653
Finance costs	–	(19 680)	(4 916)	(5 303)	(29 899)
Share of profit/(loss) of associates/ joint venture – net of tax	–	8 503	–	(292)	8 211
Profit before tax	(19 200)	43 032	(1 142)	4 525	27 215
Taxation	12 559	(11 168)	1 808	(702)	2 497
Profit after taxation	(6 641)	31 864	666	3 823	29 712
Other comprehensive income	–	–	–	–	–
Total comprehensive income	(6 641)	31 864	666	3 823	29 712

* *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.*

August 2018 R'000	Holding company/ unallocated	Residential Property Development	Memorial Parks	Residential Rental Investments	Total
Profit after taxation and other comprehensive income attributable to:					
– Owners of the parent	(6 641)	32 742	550	3 823	30 474
– Non-controlling interests	–	(878)	116	–	(762)
	(6 641)	31 864	666	3 823	29 712
Non-current assets					
Investment property	–	–	13 444	–	13 444
Property, plant and equipment	–	3 490	6 194	–	9 684
Intangible assets	–	158 995	695	–	159 690
Investment in joint ventures and associates	–	32 678	–	217	32 895
Investments	–	–	10 607	–	10 607
Deferred income tax asset	–	–	2 475	4 287	6 762
	–	195 163	33 415	4 504	233 082
Current assets					
Loans to joint ventures and associates	–	39 797	–	248 551	288 348
Inventories	–	444 740	199 744	–	644 484
Current tax receivable	276	15 736	195	–	16 207
Construction contracts	–	1 319 782	–	–	1 319 782
Trade and other receivables	1 057	278 712	833	451	281 053
Cash and cash equivalents	23 924	79 139	834	–	103 897
	25 257	2 177 906	201 606	249 002	2 653 771
Total assets	25 257	2 369 053	235 021	253 506	2 886 853
Liabilities					
Non-current liabilities					
Deferred income tax liability	–	205 575	–	–	205 575
	–	205 575	–	–	205 575
Current liabilities					
Borrowings	–	872 636	86 570	93 379	1 052 585
Current income tax liabilities	–	66	–	566	632
Trade and other payables	1 304	680 170	106 263	–	787 737
	1 304	1 552 872	192 833	93 945	1 840 954
Total liabilities	1 304	1 758 447	192 833	93 945	2 046 529

Unaudited condensed segment report for the Group (continued)

August 2017 R'000	Holding company/ unallocated	Residential Property Development	Memorial Parks	Residential Rental investments	Total
Total segment revenue	–	1 004 871	5 198	–	1 010 069
Fleurhof Project	–	270 520	–	–	270 520
Jabulani Project	–	151 185	–	–	151 185
Witpoortjie Project	–	9 371	–	–	9 371
South Hills Project	–	217 965	–	–	217 965
Belhar Project	–	191 150	–	–	191 150
Third parties	–	164 680	5 198	–	169 878
Combined revenue*	–	1 297 098	5 198	–	1 302 297
Total segment revenue	–	1 004 871	5 198	–	1 010 069
Revenue of joint ventures and associates	–	292 228	–	–	292 228
Witpoortjie Project	–	8 737	–	–	8 737
South Hills Project	–	283 491	–	–	283 491
Revenue	–	1 004 871	5 198	–	1 010 069
Cost of sales	–	(873 479)	(2 461)	–	(875 940)
Gross profit	–	131 392	2 737	–	134 129
Other income	–	4 443	903	–	5 346
Administrative expenses	(2 548)	(55 038)	(1 210)	–	(58 796)
Net impairment losses on financial and contract assets	–	–	–	–	–
Other expenses	–	(1 210)	–	–	(1 210)
Operating profit	(2 548)	79 587	2 430	–	79 469
Finance income	5	10 996	6	–	11 007
Finance costs	–	(10 825)	(140)	–	(10 965)
Share of profit/(loss) of associates/ joint venture – net of tax	–	5 524	–	–	5 524
Profit before tax	(2 543)	85 282	2 296	–	85 035
Taxation	(83)	(23 872)	(362)	–	(24 317)
Profit after taxation	(2 626)	61 410	1 934	–	60 718
Other comprehensive income	–	–	–	–	–
Total comprehensive income	(2 626)	61 410	1 934	–	60 718

* *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.*

August 2017 R'000	Holding company/ unallocated	Residential Property Development	Memorial Parks	Residential Rental investments	Total
Profit after taxation and other comprehensive income attributable to:					
– Owners of the parent	(2 626)	61 174	2 596	–	61 144
– Non-controlling interests	–	236	(662)	–	(426)
	(2 626)	61 410	1 934	–	60 718
Non-current assets					
Investment property	–	–	6 519	–	6 519
Property, plant and equipment	–	3 409	2 391	–	5 800
Intangible assets	–	158 978	695	–	159 673
Investment in joint ventures and associates	–	17 872	–	–	17 872
Investments	–	–	–	–	–
Deferred income tax asset	83	19 467	1 614	–	21 164
	83	199 726	11 219	–	211 028
Current assets					
Loans to joint ventures and associates	–	36 174	–	–	36 174
Loans to group companies	–	–	–	–	–
Inventories	–	383 643	125 704	–	509 347
Current tax receivable	–	22 899	–	–	22 899
Construction contracts	–	1 713 842	–	–	1 713 842
Work in progress	–	3 890	–	–	3 890
Trade and other receivables	197	284 906	5 019	–	290 122
Cash and cash equivalents	11	57 352	36	–	57 399
	208	2 502 706	130 759	–	2 633 673
Total assets	291	2 702 432	141 978	–	2 844 701
Liabilities					
Non-current liabilities					
Deferred income tax liability	–	327 314	–	–	327 314
	–	327 314	–	–	327 314
Current liabilities					
Borrowings	585 751	–	–	–	585 751
Current income tax liabilities	–	–	88	–	88
Trade and other payables	1 018	812 572	23 559	–	837 149
	586 769	812 572	23 647	–	1 422 988
Total liabilities	586 769	1 139 886	23 647	–	1 750 302

Notes to the unaudited condensed consolidated interim financial statements

1. Basis of preparation

1.1 Statement of compliance

The condensed consolidated interim financial statements have been 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 condensed consolidated interim financial statements have been prepared by M Esterhuizen CA(SA) under the supervision of WA Joubert CA(SA).

The condensed consolidated interim financial statements should be read in conjunction with the Group annual financial statements as at and for the year ended 28 February 2018, which have been prepared in accordance with IFRS as issued by the IASB. The interim financial statements have been prepared on the historical cost basis, excluding financial instruments, which are measured at fair value. This is the first set of interim financial statements where IFRS 9 and IFRS 15 have been applied. Changes to significant accounting policies are described in note 3.

No event that is material to the financial affairs of the Group has occurred between the reporting date and the date of approval of the condensed consolidated interim financial statements.

The condensed consolidated interim financial statements were not reviewed or audited by the Group's external auditors.

The condensed consolidated interim financial statements of the Calgro M3 Group were authorised for issue by the board of directors on 19 October 2018.

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 expense. 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 2018, except for new significant judgements related to the adoption of IFRS 9, and IFRS 15 which are described in note 3.2 and 3.5.

2. Accounting policies

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group annual financial statements as at and for the year ended 28 February 2018, except for the adoption of new or amended standards as set out below.

2.1 New or amended standards adopted by the Group

A number of new or amended standards became effective for the current reporting period. The Group has adopted the following new standards, which are relevant to the Group, for the first time for the six-month period commencing on 1 March 2018:

- IFRS 9: *Financial Instruments* (IFRS 9)
- IFRS 15: *Revenue from Contracts with Customers* (IFRS 15).

The adoption of these standards has resulted in the Group changing its accounting policies. The impact of the adoption and the new accounting policies are disclosed in note 3.

3. Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 and IFRS 15 on the interim financial statements.

3.1 Impact on the financial statements

Prior year financial statements did not have to be restated as a result of the changes in the Group's accounting policies due to the adoption of IFRS 9 and IFRS 15. As explained in note 3.2 and 3.5 below, IFRS 15 and IFRS 9 were adopted without restating comparative information.

Below is an illustration of the impact on the unaudited condensed consolidated statement of comprehensive income and unaudited condensed consolidated statement of financial position.

Unaudited condensed consolidated statement of comprehensive income impact analysis:

	As reported	Adjustments		Adjusted
R'000	**Unaudited six months 31 August 2018**	**Adjustment from the adoption of IFRS 15**	**Adjustment from the adoption of IFRS 9**	**Unaudited six months 31 August 2018 before adoption**
Revenue	**628 612**	28 389	–	**657 001**
Cost of sales	**(524 331)**	(7 509)	–	**(531 840)**
Gross profit	**104 281**	20 880	–	**125 161**
Other income	**30 522**	–	–	**30 522**
Administrative expenses	**(110 117)**	–	–	**(110 117)**
Net impairment losses on financial and contract assets	**(1 436)**	–	1 436	**–**
Other expenses	**–**	–	–	**–**
Operating profit	**23 250**	20 880	1 436	**45 566**
Net finance income/(cost)	**(4 246)**	–	–	**–**
Share of profit of joint ventures and associates – net of tax	**8 211**	–	–	**–**
Profit before tax	**27 215**	20 880	1 436	**45 566**
Taxation	**2 497**	(5 846)	(402)	**(3 751)**
Profit after taxation	**29 712**	15 034	1 034	**41 814**
Other comprehensive income	**–**	–	–	**–**
Total comprehensive income	**29 712**	15 034	1 034	**41 814**
Profit after taxation and other comprehensive income attributable to:				
– Owners of the parent	**30 474**	15 034	1 034	**41 814**
– Non-controlling interests	**(762)**	–	–	**(762)**
	29 712	15 034	1 034	**41 052**
Earnings per share – cents	**23.78**	11.73	0.81	**36.32**
Headline earnings per share – cents	**3.11**	11.73	0.81	**15.65**
Fully diluted earnings per share – cents	**23.78**	11.73	0.81	**36.32**
Fully diluted headline earnings per share – cents	**3.11**	11.73	0.81	**15.65**

3. Changes in accounting policies (continued)

3.1 Impact on the financial statements (continued)

Unaudited condensed consolidated statement of financial position impact analysis:

R'000	As reported Unaudited six months 31 August 2018	Adjustments Adjustment from the adoption of IFRS 15	 Adjustment from the adoption of IFRS 9	Adjusted Unaudited six months 31 August 2018 before adoption
ASSETS				
Non-current assets				
Investment property	13 444	–	–	13 444
Property, plant and equipment	9 684	–	–	9 684
Intangible assets	159 690	–	–	159 690
Financial asset at fair value through profit and loss	10 607	–	–	10 607
Investment in joint ventures and associates	32 895	–	–	32 895
Deferred income tax asset	2 746	–	–	2 746
	229 066	–	–	229 066
Current assets				
Loans to joint ventures and associates	288 348	–	1 037	289 385
Inventories	644 484	–	–	644 484
Current tax receivable	16 207	–	–	16 207
Construction contracts	1 319 782	20 880	442	1 341 104
Trade and other receivables	281 053	–	(43)	281 010
Cash and cash equivalents	103 897	–	–	103 897
	2 653 771	20 880	1 436	2 676 087
Total assets	2 882 837	20 880	1 436	2 905 153
EQUITY AND LIABILITIES				
Equity				
Equity attributable to owners of the parent				
Stated capital	116 256	–	–	116 256
Retained income	722 539	15 034	1 034	738 606
	838 795	15 034	1 034	854 862
Non-controlling interests	1 529	–	–	1 529
Total equity	840 324	15 034	1 034	856 391
Liabilities				
Non-current liabilities				
Deferred income tax liability	201 559	5 846	402	207 807
	201 559	5 846	402	207 807
Current liabilities				
Borrowings	1 052 585	–	–	1 052 585
Current income tax liabilities	632	–	–	632
Trade and other payables	787 737	–	–	787 737
	1 840 954	–	–	1 840 954
Total liabilities	2 042 513	5 846	402	2 048 761
Total equity and liabilities	2 882 837	20 880	1 436	2 905 153

3. Changes in accounting policies (continued)

3.2 Impact of adoption of IFRS 15: *Revenue from Contracts with Customers*

The revenue accounting policy has changed with effect from 1 March 2018 as a result of the Group adopting IFRS 15.

IFRS 15 supersedes IAS 18 (Revenue), IAS 11 (Construction Contracts) and related interpretations for annual periods beginning on or after 1 January 2018. IFRS 15 applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised, providing additional guidance in many areas not covered in detail under the previous revenue standards and interpretations. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying the framework to the contracts with customers. The standard also specifies the accounting treatment for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. IFRS 15 further includes extensive new disclosure requirements.

Refer note 3.4 for the Group's revised revenue accounting policy as well as revenue treatment of each product type. Refer to note 3.4.1 for the disaggregated revenue disclosure required by IFRS 15.

As permitted by IFRS 15 the Group has elected not to restate the comparative information. Accordingly, the impact of IFRS 15 has been applied using the modified retrospective restatement method allowed under the standard resulting in an adjustment to the Group's opening retained earnings on 1 March 2018. The comparative information presented for 2018 is therefore presented as previously reported applying the previous revenue standards and interpretations.

The cumulative effect of the retrospective application on the Group's retained earnings as at 1 March 2018 is as follows:

R'000	Unaudited six months 31 August 2018
Closing balance at 28 February 2018 (IAS 39/IAS 11/IAS 18)	**977 015**
IFRS 15 adjustment to equity	**(317 063)**
Opening retained earnings at 1 March 2018 (after IFRS 15 restatement, before IFRS 9 restatement)	**659 952**

3.3 Financial results for the six-month period ended 31 August 2018 had IAS 11/IAS 18 been applied

			IAS 11	
R'000	Unaudited six months 31 August 2018	IAS 11 adjustment	Unaudited six months 31 August 2018	Unaudited six months 31 August 2017
Sale of completed units	**3 783**	–	**3 783**	6 269
Construction contracts	**612 965**	28 389	**641 354**	998 602
Memorial parks burial rights	**9 893**	–	**9 893**	4 872
Memorial parks maintenance services	**1 286**	–	**1 286**	115
Memorial parks burial services	**685**	–	**685**	211
	628 612	28 389	**657 001**	1 010 069

The impact of the IFRS 15 adoption in the current year is illustrated for the condensed consolidated statement of comprehensive income and statement of financial position in note 3.1.

Notes to the unaudited condensed consolidated interim financial statements
(continued)

3. Changes in accounting policies (continued)

3.4 Accounting policies applied from 1 March 2018

The Group derives revenue from contracts with customers for the supply of goods (infrastructure, fully and partially subsidised units, non-subsidised units, serviced land and memorial park burial rights) and services (memorial park burial services and memorial park maintenance).

Revenue is measured based on the consideration specified in the contract with a customer excluding any amounts received on behalf of third parties and is recognised when it transfers control of the goods or services to a customer.

The Group measures and accounts for revenue based on the specifications of each individual contract with a customer and based on the contractual obligations either accounts for the revenue at a specific point in time or over time as control of the goods or services are transferred to the customer.

Type of product	Treatment under IAS 11/IAS 18	New treatment under IFRS 15
Fully subsidised (reconstruction and development programme ("RDP")/breaking new ground ("BNG"))	Individual contract with revenue recognised based on % completion (IAS 11)*	Individual contract treatment with revenue recognised over time#
Subsidised rental		
– Community residential units ("CRU")	Individual contract with revenue recognised based on % completion (IAS 11)*	Individual contract treatment with revenue recognised over time#
– Social housing	Individual contract with revenue recognised based on % completion (IAS 11)*	Individual contract basis treatment revenue recognised over time#
Bulk buyer/real estate investment trust ("REIT")/ funds	Individual contract with revenue recognised based on % completion (IAS 11)*	Individual contract treatment with revenue recognised either at a point in time or over time#
Grassroots affordable peoples' homes ("GAP")/ finance linked individual subsidy programme ("FLISP")	Individual contract per customer with revenue recognised on transfer of completed unit (IAS 18)*	Individual contract per customer with revenue recognised on transfer of completed unit – revenue recognised at a point in time
Affordable housing	Individual contract per customer with revenue recognised on transfer for the land to the customer (IAS 18) and based on % completion for the construction of the unit (IAS 11)*	Individual contract per customer with two performance obligations. Revenue recognised on transfer of the land to the customer at a point in time. Revenue on construction of the unit to be recognised over time
High-end units	Individual contract per customer with revenue recognised on transfer for the land to the customer (IAS 18) and based on % completion for the construction of the unit (IAS 11)*	Individual contract per customer with two performance obligations. Revenue recognised on transfer of the land to the customer at a point in time. Revenue on construction of the unit to be recognised over time

3. Changes in accounting policies (continued)

3.4 Accounting policies applied from 1 March 2018 (continued)

Type of product	Treatment under IAS 11/IAS 18	New treatment under IFRS 15
Integrated residential developments (consisting of a mix of bulk, link and internal infrastructure together with a mix in unit typologies as outlined above)	Accounted for as a single, combined contract on % completion basis (IAS 11)	Every contract with a customer to be recognised and accounted for individually (as per above) at a point in time or over time depending on the terms and conditions contained in the contract with a customer
Memorial Parks burial rights	The sale of burial rights relates to revenue generated from the reservation of a grave site. Individual contract per customer with revenue recognised on transfer of burial right to the customer once full payment has been received (IAS 18)	Individual contract treatment with revenue recognised at a point in time when control of burial right has transferred to the customer
Memorial Parks burial services	he burial services relates to the revenue generated from the interment services provided by the Group. Individual contract per customer with revenue recognised on transfer of burial services rendered to the customer (IAS 18)	Individual contract treatment with revenue recognised at a point in time when the burial service has been rendered to the customer
Memorial Parks maintenance services	The maintenance services relate to the revenue generated from the memorial park maintenance provided by the Group for the reserved graves. Individual contract per customer with revenue recognised over the period of maintenance being provided (IAS 18)	Individual contract treatment with revenue recognised over time as the maintenance services are being rendered for the customer

* *Based on an individual contract basis as if treated as a separate engagement and not part of an integrated development.*

\# *Exact treatment will be assessed based on the individual contract with the customer and the underlying terms and conditions that are unique to each contract. Revenue may in certain cases be recognised at a point in time rather than over time and may have more than one performance obligation as determined by IFRS 15. Each will be assessed on its own set of underlying facts and recognised according to the guidance contained in IFRS 15.*

3. Changes in accounting policies (continued)

3.4 Accounting policies applied from 1 March 2018 (continued)

3.4.1 Disaggregated revenue disclosure required by IFRS 15

R'000	Unaudited six months 31 August 2018
Infrastructure	262 870
Fully and partially subsidised units	304 659
Non-subsidised units	40 382
Serviced land sales	8 837
Memorial parks burial rights	9 893
Memorial parks maintenance services	1 286
Memorial parks burial services	685
	628 612

3.5 Impact of adopting IFRS 9

IFRS 9 replaces IAS 39: *Financial Instruments: Recognition and Measurement* (IAS 39) for annual periods beginning on or after 1 January 2018. IFRS 9 brings together all aspects of accounting for financial instruments that relate to the recognition, classification and measurement, derecognition, impairment and hedge accounting.

The adoption of IFRS 9 from 1 March 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in note 3.6 below. Comparative information has not been restated in accordance with the transitional requirements of IFRS 9 which requires comparative information not to be restated (with an exception where it is possible to restate without the use of hindsight) but for disclosures to be made concerning the reclassifications and measurements as set out below.

The adoption of IFRS 9 has had the following effect on the Group:

- Change from the IAS 39 incurred loss model to the expected credit loss ("ECL") model to calculate impairments of financial instruments.
- Change in classification of the measurement categories for financial instruments.

Under IFRS 9 the Group calculates allowance for credit losses as ECLs for financial assets measured at amortised cost, debt investments at fair value through other comprehensive income ("FVOCI") and contract assets. ECLs are a probability weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the original effective interest rate ("EIR") of the financial asset.

Due to the nature of the Group's financial instruments, a simplified approach could not be followed. Instead a judgemental approach (non-statistical) was adopted with the use of established credit techniques.

The expected credit losses calculations took into consideration various scenarios and were weighted against stage of completion of a relevant project and taking into consideration the distance from budget and current economic conditions.

3. Changes in accounting policies (continued)

3.5 Impact of adopting IFRS 9 (continued)

The total impact on the Group's retained earnings as at 1 January 2018 is as follows:

R'000	Unaudited six months 31 August 2018
Opening balance at 1 March 2018 (after IFRS 15 before IFRS 9 restatement) (refer to note 3.2)	**659 952**
Adjustments from the adoption of IFRS 9 (ECL adjustments)	**(29 085)**
Trade receivables	**3 513**
Contract assets	**22 249**
Loans to joint ventures	**3 323**
Opening retained earnings at 1/3/2018 (after IFRS 9 and IFRS 15 restatement)	**630 867**

3.6 Accounting policies applied from 1 March 2018

3.6.1 Classification and measurement

(i) Classification

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available-for-sale financial assets.

The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at:

- Amortised cost;
- Fair value through other comprehensive income ("FVOCI");
- FVOCI equity investment; or
- Fair value through profit or loss ("FVPL").

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flows characteristics.

There are no change in classification on the opening balances of financial assets measured at amortised cost.

(ii) Measurement

Financial assets

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of financial asset not at FVPL, transaction cost that are directly attributable to the acquisition of the financial asset.

Transaction cost of financial assets carried at FVPL are expensed in profit or loss.

Interest income from these financial assets are included in finance income using the effective interest rate method.

Any gain or loss arising on the derecognition is recognised directly in profit or loss and presented in operating expenses.

3. Changes in accounting policies (continued)

3.6 Accounting policies applied from 1 March 2018 (continued)

3.6.1 Classification and measurement (continued)

(ii) Measurement (continued)

Financial liabilities

At initial recognition the Group measures a financial liability at fair value less any transaction cost capitalised to the financial liability at initial recognition.

All of the Group's financial liabilities are classified as "financial liabilities at amortised cost" and are therefore subsequently measured at amortised cost.

Equity instruments

Equity instruments are subsequently measured at fair value, where the Group's management has elected to present fair value gains and losses through OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as income from financial assets when the Group's right to receive payments is established.

Changes in fair value of the financial assets at FVPL are recognised in operating expenses in the statement of comprehensive income as applicable.

(iii) Impairment

From 1 March 2018, the Group assesses on a forward looking basis the ECLs associated with its financial asset instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the original EIR of the financial asset.

All gains and losses relating to ECLs are recognised through profit and loss.

3.6.2 Expected credit losses

R'000	1 March 2018 opening balance*	Movement	Unaudited six months 31 August 2018
Trade receivables	4 880	(43)	**4 837**
Contract assets	30 901	442	**31 343**
Loans to joint ventures	3 323	1 037	**4 360**
	39 104	1 436	**40 540**

* *Opening balances were adjusted according to the modified retrospective approach on 1 March 2018 and adjustments included in retained earnings.*

R'000	Unaudited six months 31 August 2018	Unaudited six months 31 August 2017	Audited year ended 28 February 2018
4. Earnings reconciliation			
Determination of headline and diluted earnings			
Attributable profit	**30 474**	61 144	120 350
Loss/(profit) on disposal of property, plant and equipment and computer software	**–**	–	(170)
Gain on deemed disposal of interest in joint venture	**–**	–	(6 000)
Impairment of goodwill	**–**	–	1 310
Gain on bargain purchase	**(26 490)**	–	–
Headline and diluted headline earnings	**3 984**	61 144	115 490
Determination of earnings and diluted earnings			
Attributable profit	**30 474**	61 144	120 350
Earnings and diluted earnings	**30 474**	61 144	120 350
Number of ordinary shares	**128 150**	128 150	128 150
Weighted average shares	**128 150**	128 150	128 150
Fully diluted weighted average shares	**128 150**	131 918	130 813
5. Inventories			
Opening balance	**554 397**	595 989	595 989
Additions (net of transfers to contract assets)	**85 278**	(89 165)	(49 627)
Borrowing cost capitalised	**8 622**	10 146	24 567
Disposals	**(3 813)**	(7 623)	(16 532)
	644 484	509 347	554 397
6. Construction contracts			
The aggregate costs incurred and recognised profits to date	**10 063 283**	9 022 833	9 786 724
Less: Progress billings	**(8 744 518)**	(7 322 485)	(7 970 169)
Net statement of financial position balance for ongoing contracts	**1 318 765**	1 700 348	1 816 555
Excess billings over work done classified under trade and other payables	**1 017**	13 494	4 419
Statement of financial position balance for ongoing contracts	**1 319 782**	1 713 842	1 820 974

R'000	Unaudited six months 31 August 2018
6. Construction contracts (continued)	
Analysis of contract assets in terms of IFRS 15	
Infrastructure	**401 352**
Fully and partially subsidised units	**671 683**
Non-subsidised units	**40 710**
Serviced land	**206 037**
	1 319 782

R'000	Unaudited six months 31 August 2018	Unaudited six months 31 August 2017	Audited year ended 28 February 2018
7. Related-party transactions			
Compensation paid to key employees and personnel*	**49 034**	16 112	34 409
Finance income from related parties	**12 668**	6 810	15 791
Contract revenue received from joint ventures	**245 337**	227 335	485 166

* *Amounts include executive share scheme expense that was accelerated and cancelled on 31 August 2018.*

The Group entered into various sale and purchase transactions with associates and joint ventures during the ordinary course of business. These transactions were subject to terms that are no less, nor more favourable than those arranged with independent third parties.

8. Financial instruments

The carrying value of all financial instruments are equal to the fair value of those instruments at 31 August 2018 with the exception of borrowings. The carrying value of borrowings at 31 August 2018 was R1.053 billion, with a corresponding fair value of R1.089 billion. The difference is attributable to the bonds trading in an active market and are classified as level 2 in the IFRS 13 fair value hierarchy.

9. Bond Exchange

During the period ended 31 August 2018, the Group repaid R91 million in borrowings that matured, as well as raised a total of R146 million in a combination of three and five-year notes. Subsequent to 31 August 2018, R62 million was repaid that matured.

Total finance cost incurred for the period amounted to R59.8 million (August 2017: R34.7 million) of which R29.9 million (August 2017: R23.7 million) was capitalised to inventory and construction contracts.

10. 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.

11. Going concern

Based on the latest results for the six-month period ended 31 August 2018, the latest board approved budget for 2019, as well as the available bank facilities and cash generating capability, Calgro M3 satisfies the criteria of a going concern.

12. JSE Listings Requirements

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the Listings Requirements of the JSE.

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 endorse the principles contained in King IV™. Calgro M3's application of these principles are set out in the 2018 integrated report and has been, in accordance with the JSE Listings Requirements, available on the Company's website since May 2018. 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 cash 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).

R'000	Unaudited six months 31 August 2018	Audited year ended 28 February 2018
Net debt		
Borrowings	**1 052 585**	889 597
Other interest-bearing borrowings	**28 350**	71 599
Less: Cash and cash equivalents	**(103 897)**	(240 765)
	977 038	720 431
Equity		
Stated capital	**116 256**	116 256
Retained income	**722 539**	846 079
	838 795	962 335
Net debt/equity ratio	**1.16**	0.75

The maximum allowed net debt:equity ratio for the Group is 1:5.

14. Ratio calculations (continued)

Debt service cover ratio ("DSCR")

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

This ratio is calculated as available cash flow divided by debt service requirement. Available cash flow is calculated as net cash generated from operating activities plus new financial indebtedness incurred plus cash and cash equivalent at the beginning of the year plus capital expenditure (including investments into associates and joint ventures). Debt service requirement is calculated as interest and fees plus principal repayments.

R'000	Unaudited six months 31 August 2018	Audited year ended 28 February 2018
Available cash flow		
Net cash generated from operating activities	**3 564**	(205 839)
New financial indebtedness incurred	**255 000**	516 000
Cash and cash equivalent beginning of year	**156 723**	240 765
Capital expenditure	**(161 058)**	(129 533)
	254 229	421 393
Debt service requirement		
Interests and fees	**47 009**	75 747
Principal repayments	**91 000**	192 000
	138 009	267 747
Debt service cover ratio ("DSCR")	**1.84**	1.57

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 net debt/equity ratio of below 1.5:1.

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
G Hauptfleisch*#
* *Non-executive* # *Independent*

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Sponsor
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Company secretary
I April

Auditors
PricewaterhouseCoopers Inc.

Website
www.calgrom3.com

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

CALGRO M3

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