

# Unaudited condensed consolidated interim financial results

for the six months ended 31 August 2019



**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")

## Highlights of the period

Cash generated from operations: R449.5 million

Cash on hand increasing by 67.5% to R205.4 million

South Hills development won the Sustainable City's and Human Settlements Award from the United Nations ("UN")

Level 1 B-BBEE Contributor Status

Secured the Frankenwald (Bucleuch, Gauteng) project on a four-year option agreement

*Building legacies. Changing lives*

## COMMENTARY

### Nature of the business

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

### The period in perspective

The Group's intense focus on cash flow generation and cash preservation during the period under review paid off, with cash generated from operations increasing to R449.5 million. During these difficult economic times, the cash flow was stabilised to ensure sustainability of the Group and to mitigate risks associated with unplanned delays and stoppages on major projects. As a result, both the Statement of Financial Position and Statement of Cash Flows reflect a solid position.

Most recent successes:

- ▶ Fleurhof substation construction under way with an anticipated completion date of August 2020
- ▶ Scottsdene illegal invasion resolved and no other Calgro M3 units illegally occupied
- ▶ Top empowerment award received in recognition of contribution to growth and sustainability
- ▶ The Sustainable City's and Human Settlements Award received from the UN
- ▶ Secured the Frankenwald development (current rights of 10 000 residential units with an estimated final yield of between 40 000 and 50 000 residential units after densification) on a four-year option agreement

The Group has stabilised cash flows through various debtor and progress draw recoveries and has been able to support itself without having to sell off any of its assets outside of the ordinary course of business. The suspension of work on various developments, to preserve capital and mitigate risk, resulted in additional costs being incurred. As anticipated, the protection of cash resources by reducing operations to an extremely low level, impacted the gross profit margin due to standing time and associated costs incurred. No extraordinary costs were incurred during the period. The Group is placing a lot more emphasis on the sale of various commercial stands within its residential development portfolio as well as the sale of the old cluster portfolio in order to liquidate the Statement of Financial Position sufficiently to ensure efficient operational performance once it returns to full capacity.

### Short-term approach

The Group will remain focused on its core business of specialising in property and property-related activities, as well as cash flow generation to enable the Group to manage external influences outside of its control more efficiently.

The short-term approach will remain the protection of downside risk to ensure that the Company withstands the current instability and uncertainty of the South African economic and political climate, which is expected to be protracted.

Specific areas of focus are:

#### Cash preservation

- ▶ Dispose of projects that carry a high risk, are capital intensive and yield lower than expected returns

#### Debt capital redemption profile risk

- ▶ Early settlement of debt maturing in the next 24 months through:
  - The sale of various commercial and retail stands, transfer of which is expected in April 2020
  - Refinancing of debt from current and new providers
  - Sale of the residential rental portfolio
  - Partnering with third-party developers to fast track cash conversion on the mid-to-high cluster portfolio

#### Reduce monthly expenditure

- ▶ Staff reductions without losing key personnel and intellectual property
- ▶ Reduction of administrative expenses
- ▶ Subcontracted construction (turn-key basis) for all new construction orders
  - Risk associated with this strategy will be mitigated by allocating work across various reputable contractors
  - Improvement of our variable cost model

### Business overview

#### Residential Property Developments

The Group is well positioned to recommence construction and increase capacity on a number of projects. The Group has 7 837 fully serviced opportunities available for development as well as 3 317 units already under construction at various stages of completion. The Group is targeting to complete circa 2 000 units for the 2020 financial year and commence/recommence construction on another 2 253 units in the second half of the 2020 financial year, cash flow permitting. Based on the estimated timing for completion, the Group will have sufficient working capital available to commence the additional units without the need of raising additional working capital in the short term.

Projects	Completed and partially completed units – under construction	Partially completed units – construction stopped	Serviced opportunities available	Services underway	Partially/unserviced	Total available stands
Belhar CBD	765	304	2 389	–	–	3 213
Bridge City	–	–	–	356	–	356
Fleurhof	683	488	2 111	594	–	3 776
Jabulani CBD	–	–	384	–	–	384
Jabulani Hostels	128	–	197	–	–	325
Jabulani Parcel K	–	–	696	–	714	1 410
La Vie Nouvelle	21	–	104	–	–	118
Mid to high cluster land	–	–	–	–	255	255
Scottsdene	336	412	181	–	–	874
South Hills	68	–	1 608	566	2 178	4 392
Summerset	32	–	–	–	–	–
Tanganani Ext 14	–	–	–	–	11 624	11 624
Umhlanga Hills	–	–	–	–	1 376	1 376
Vista Park Ext 3	–	–	–	–	5 320	5 320
Vredehoek	–	–	–	–	260	260
Witpoortjie	80	–	167	–	4 586	4 792
	<b>2 113</b>	<b>1 204</b>	<b>7 837</b>	<b>1 516</b>	<b>26 313</b>	<b>38 475</b>

## COMMENTARY (continued)

The Residential Property Development business will remain focused on rolling out its current pipeline in the most efficient and effective manner possible. With our clientele becoming more discerning over the last couple of years, our focus remains on enhancing our product offering, while keeping the sales price as low as possible. We strive to deliver products and services to our customers that are superior in the market and which hold good value-for-money.

The Group managed to secure the Frankenwald property in partnership with a third-party developer on an annual option fee basis for the next four years. Frankenwald is the last remaining large-scale property in the greater Sandton area and is situated next to Alexandra and the Marlboro Gautrain station, yielding between approximately 40 000 and 50 000 residential opportunities. No material financial commitments on this project are planned for the next four years while the Group executes on its current pipeline.

With enough serviced opportunities available on the Statement of Financial Position, the Group has decided to only develop new integrated development infrastructure, should funding become available for it. The Group will remain focused on cash preservation and the delivery of completed units, rather than creating new assets or serviced opportunities on a large-scale basis. Government budget for civil infrastructure has been approved on the South Hills, Jabulani and Vista Park developments. The electrification budget for the Fleurhof substation has been approved and the electrification budgets from Government, across all other projects are being monitored closely.

The Group is exploring the sale of all rental units as part of the normal operations of the development business in order to generate cash flow to settle debt in the short term (see debt capital redemption profile risk on page 2). This period of zero capital redemption will substantially lower the Group's risk and provide the Residential Property Development and Memorial Parks businesses with the ability of utilising working capital in a more efficient manner to generate sufficient returns to allow the revival of this business much more aggressively in the future.

Management remains confident that the valuation performed on the additional value locked in the Statement of Financial Position for the financial year ended 28 February 2019, is still valid. The total estimated additional value, not reflected, amounted to R1.4 billion and all the fundamentals, on which this valuation was based, are still applicable.

### Memorial Parks

The Group remains bullish on growth opportunities in this business and its ability to match the profitability of the property development business in the medium to long term. The current areas of focus, in order to achieve this goal, are establishing a national footprint and enhancing sales distribution through various channels.

Sales for the period were under pressure as a result of declining customer affordability levels and a lower than expected sales throughout the winter months. Total revenue for the period decreased by 7.3% to R11 million (2018: R11.9 million) with total grave sales declining by 15.4% to 473 graves (2018: 559 graves). Extended payment options are also offered to clients (at no interest, or additional fees), with up to 12 months to pay. Total sales sold on deferred payment terms, for which no revenue is recognised, amounts to 62 graves, totalling R2 million in sales.

Due to the decline in sales the Group instituted various corrective measures to ensure that the business returns to high levels of growth. Additional sales agents and sales managers were appointed, while the new Group Head of Marketing and Sales was seconded to work exclusively on the Memorial Parks business until a turnaround is achieved. Further interventions include:

- ▶ focused marketing campaigns; and
- ▶ special pricing options.

Management has an estimated valuation of R520.3 million on this business based on the exit value of the Nasrec Joint Venture partner interest during the previous financial year.

## Residential Rental Investments

Calgro M3 entered the rental sector to secure annuity income to boost operating cash flow across the Group. The medium to long-term strategy of this business also includes an equal profit contribution to that of the Property Development and Memorial Parks businesses. The Group will, however, not invest into this business in the short term due to the capital intensive nature of the business.

## Financial review

### Statement of Comprehensive Income

The deliberate slowdown in operations across all development sites, resulted in revenue for the six months ended 31 August 2019 decreasing by 17.2% to R520.8 million (2018: R628.6 million) and combined revenue decreasing by 26.4% to R579.5 million (2018: R787.3 million). The costs associated with these low levels of activity resulted in the gross profit margin being put under pressure, decreasing to 7.6% (2018: 16.6%). The decrease in margin is attributable to a combination of IFRS 15 (when compared to historical 20% to 25% margins) as well as construction-related standing time costs incurred. The gross profit margin would have been 16.3% if construction-related standing time cost is eliminated.

Insurance claims amounting to R16.4 million were recovered from SASRIA, with claims totalling R34.5 million still under assessment.

The decrease in outstanding debtors and contract asset balances resulted in a reduction in the IFRS 9 expected credit loss provision that positively impacted impairment losses on financial and contract assets by R29.7 million.

Administrative expenses decreased by 22.3% to R51.4 million after the elimination of the accounting impact from the cancellation of the executive share scheme during the previous period.

### Earnings per share

Basic earnings per share ("EPS") decreased by 106.1% to a loss of 1.46 cents (2018: 23.78 cents profit). Similarly, headline earnings per share ("HEPS") decreased by 204.2% to a loss of 3.24 cents (2018: 3.11 cents profit).

### Statement of Financial Position and Cash Flow

Movements in the loans to joint ventures and associates, inventories, and trade and other payables are primarily attributable to the unbundling of the Afco Calgro M3 Consortium joint venture subsequent to the year ended 28 February 2019. The unbundling saw an asset split between the parties with the dissolution of the joint venture.

The movement in property, plant and equipment relates to the capitalisation of office buildings as a result of the adoption of IFRS 16.

The positive cash generated from operations of R449.5 million resulted from the receipts of outstanding invoices and progress draw recoveries, primarily from the public sector. The net cash generated, resulted in the construction contracts and trade and other receivables balances decreasing by 35.2% on a combined basis.

The total loan advances in the cash flow statement was made to joint ventures and associates for development purposes amounting to R148 million during the period. The Group repaid R111 million in Bond Exchange notes that matured during the period, with a R104 million, three-year instrument issued to SA Corporate as settlement of the balance remaining after the asset split pursuant to the dissolution of the joint venture.

## COMMENTARY (continued)

### The period ahead

The key focus areas for the next six months to 29 February 2020 will be to manage liquidity, the downside risk as well as ensuring optimal capital application on projects. Careful consideration will be given to the best use of cash on each project to ensure sustainable long-term returns and value for shareholders. Emphasis will be placed on cash flow extraction from the various development projects. Development at full capacity will only be possible once a more stable economic environment is experienced. Continued focus will be placed on Memorial Parks to ensure a return to growth.

The Group will continue to work towards ensuring it is correctly capitalised from a liquidity perspective and right-sized in terms of overhead structures. We remain confident in the long-term growth and potential in the South African market and once the economic climate recovers to a higher growth environment, the Group will be able to capitalise on being a first mover to market.

### Health, safety and environmental initiatives

The implementation of Health, Safety and Environmental (“HSE”) systems, which align with ISO 14001 and ISO 45001, have progressed well during the period under review and the Group is readying itself for certification in November and December of this year. The changes brought about by the adoption of these new systems had a significant impact on the way HSE matters are dealt with and the advantages of this far outweigh the cost. Our main priority is to ensure that each site follows a consistent approach

The protection of the environment, our staff, contractors and the communities we develop in, will always remain of paramount importance.

### Board of Directors

On 13 May 2019, Calgro M3 announced the early retirement and resignation of Frederick Johannes Steyn (“Derek”) as an executive director. Derek, one of the founding members of Calgro M3 in 1995, has served the Company with dedication and distinction for the past 24 years and his contribution to the success and continued growth of the Company has been immense. He remains involved with the Company through a long-term consultancy and advisory agreement.

On 27 June 2019, Ben Pierre Malherbe resigned from the Board.

The Board would like to thank Derek and Ben Pierre for their valued contribution to Calgro M3 and wish them well in their future endeavours.

**Wikus Lategan**

*Chief Executive Officer*

Johannesburg

18 October 2019

Date of announcement: 21 October 2019

**Waldi Joubert**

*Group Financial Director*

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

R'000	Notes	Unaudited August 2019	Unaudited August 2018	Audited February 2019
Revenue	9	520 781	628 612	997 065
Cost of sales	10	(481 010)	(524 331)	(868 374)
<b>Gross profit</b>		<b>39 771</b>	104 281	128 691
Other income		8 936	30 522	36 538
Administrative expenses		(52 667)	(110 117)	(186 014)
Other expenses		–	–	(929)
Impairment gain/(losses) on financial and contract assets	7	29 746	(1 436)	(7 190)
<b>Operating (loss)/profit</b>		<b>25 786</b>	23 250	(28 904)
Finance income		14 993	25 652	50 005
Finance costs		(44 835)	(29 898)	(59 366)
Share of profit of joint ventures and associates – net of tax		923	8 211	14 188
<b>(Loss)/profit before tax</b>		<b>(3 133)</b>	27 215	(24 077)
Taxation		333	2 497	25 305
<b>(Loss)/profit after taxation</b>		<b>(2 800)</b>	29 712	1 228
Other comprehensive income		–	–	–
<b>Total comprehensive (expense)/income</b>		<b>(2 800)</b>	29 712	1 228
(Loss)/profit after taxation and other comprehensive (expense)/income attributable to:				
– Owners of the parent		(1 875)	30 474	3 241
– Non-controlling interests		(925)	(762)	(2 013)
		(2 800)	29 712	1 228
<b>(Loss)/profit after taxation attributable to:</b>				
Equity holders of the Company		(1 875)	30 474	3 241
(Loss)/earnings per share (cents)	4	(1.46)	23.78	2.53
Headline (loss)/earnings per share (cents)	4	(3.24)	3.11	(19.01)
Fully diluted (loss)/earnings per share (cents)	4	(1.43)	23.78	2.48
Fully diluted (loss)/headline earnings per share (cents)	4	(3.17)	3.11	(19.01)

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

R'000	Notes	Unaudited August 2019	Unaudited August 2018	Audited February 2019
<b>Assets</b>				
<b>Non-current assets</b>				
Investment property		14 037	13 444	14 020
Property, plant and equipment	3	29 550	9 684	12 173
Intangible assets		159 665	159 690	159 677
Investments		11 915	10 607	11 090
Investment in joint ventures and associates		154 033	32 895	153 006
Deferred income tax asset		57 195	2 746	43 355
		<b>426 395</b>	<b>229 066</b>	<b>393 321</b>
<b>Current assets</b>				
Loans to joint ventures and associates		265 107	288 348	311 393
Inventories	5	810 087	644 484	568 498
Current tax receivable		1 507	16 207	2 538
Construction contracts	6	893 461	1 319 782	1 279 073
Trade and other receivables		87 526	281 053	233 818
Cash and cash equivalents		205 413	103 897	122 633
		<b>2 263 101</b>	<b>2 653 771</b>	<b>2 517 953</b>
<b>Total assets</b>		<b>2 689 496</b>	<b>2 882 837</b>	<b>2 911 274</b>
<b>Equity and liabilities</b>				
<b>Equity</b>				
Equity attributable to owners of the parent				
Stated capital		116 256	116 256	116 256
Share-based payment reserve		1 310	-	-
Retained income		687 242	722 539	690 054
		<b>804 808</b>	<b>838 795</b>	<b>806 310</b>
Non-controlling interests		(648)	1 529	277
<b>Total equity</b>		<b>804 160</b>	<b>840 324</b>	<b>806 587</b>
<b>Liabilities</b>				
Non-current liabilities				
Deferred income tax liability		178 088	201 559	214 300
		<b>178 088</b>	<b>201 559</b>	<b>214 300</b>
<b>Current liabilities</b>				
Borrowings	8	962 822	1 052 585	969 195
Loans from joint ventures and associates		-	-	23 000
Current income tax liabilities		35 723	632	1 913
Trade and other payables		708 703	787 737	896 279
		<b>1 707 248</b>	<b>1 840 954</b>	<b>1 890 387</b>
<b>Total liabilities</b>		<b>1 885 336</b>	<b>2 042 513</b>	<b>2 104 687</b>
<b>Total equity and liabilities</b>		<b>2 689 496</b>	<b>2 882 837</b>	<b>2 911 274</b>



## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

R'000	Stated capital	Share-based payment reserve	Retained income	Total	Non-controlling interests	Total equity
<b>Balance at 1 March 2018</b>	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 opening balance adjustment to equity	–	–	(317 063)	(317 063)	–	(317 063)
IFRS 9 opening balance adjustment to equity	–	–	(29 085)	(29 085)	–	(29 084)
Share-based payment expense	–	43 992	–	43 992	–	43 992
Share-based payment reserve released to retained earnings	–	(118 048)	118 048	–	–	–
<b>Comprehensive income</b>						
Profit for the period	–	–	30 474	30 474	(762)	29 712
Other comprehensive income	–	–	–	–	–	–
<b>Total comprehensive income</b>	–	–	30 474	30 474	(762)	29 712
<b>Balance at 31 August 2018</b>	116 256	–	722 539	838 795	1 529	840 324
<b>Balance at 1 March 2019</b>	<b>116 256</b>	<b>–</b>	<b>690 054</b>	<b>806 310</b>	<b>277</b>	<b>806 587</b>
IFRS 16 opening balance adjustment to equity	–	–	(937)	(937)	–	(937)
Share-based payment expense	–	1 310	–	1 310	–	1 310
<b>Comprehensive income</b>						
Loss for the period	–	–	(1 875)	(1 875)	(925)	(2 800)
Other comprehensive income	–	–	–	–	–	–
<b>Total comprehensive (expense)/income</b>	–	–	(1 875)	(1 875)	(925)	(2 800)
<b>Balance at 31 August 2019</b>	<b>116 256</b>	<b>1 310</b>	<b>687 242</b>	<b>804 808</b>	<b>(648)</b>	<b>804 160</b>

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

R'000	Unaudited August 2019	Unaudited August 2018	Audited February 2019
<b>Cash generated from/(utilised in) operating activities</b>			
Cash generated from operations	449 468	3 565	298 290
Finance income received	10 377	3 904	10 647
Finance cost paid	(63 703)	(47 009)	(115 459)
Tax (paid)/refunded	(20 660)	(328)	8 605
<b>Net cash generated from/(utilised in) operating activities</b>	<b>375 482</b>	<b>(39 868)</b>	<b>202 083</b>
<b>Cash flows invested in investing activities</b>			
Purchase of investment property	–	(4 565)	(51)
Purchase of property, plant and equipment	(684)	(4 060)	(2 803)
Purchase of intangible assets	–	(39)	(39)
Investments in joint venture and associates	–	–	(119 794)
Acquisition of business	(8 250)	(16 250)	(25 500)
Loans advanced to joint ventures and associates	(148 733)	(136 145)	(149 974)
Loans repaid by joint ventures and associates	14 865	–	–
<b>Net cash invested in investing activities</b>	<b>(142 802)</b>	<b>(161 059)</b>	<b>(298 161)</b>
<b>Cash flows (repaid in)/from financing activities</b>			
Proceeds from borrowings	–	255 000	273 000
Repayment of borrowings	(111 000)	(91 000)	(193 000)
Loans received from joint ventures and associates	–	–	23 000
Loans repaid to joint ventures and associates	(23 000)	–	–
Equity paid back	–	–	(25 112)
Transactions with non-controlling interest	(15 900)	(15 900)	(15 900)
<b>Net cash (repaid in)/from financing activities</b>	<b>(149 900)</b>	<b>148 100</b>	<b>61 988</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>82 780</b>	<b>(52 826)</b>	<b>(34 090)</b>
Cash and cash equivalents at the beginning of the year	122 633	156 723	156 723
<b>Cash and cash equivalents at the end of the period/year</b>	<b>205 413</b>	<b>103 897</b>	<b>122 633</b>

## UNAUDITED CONDENSED SEGMENT REPORT FOR THE GROUP

R'000	Residential Property Development	Memorial Parks	Residential Rental Investments	Holding Company/ unallocated	Total
<b>August 2019</b>					
<b>Total segment revenue</b>	508 037	11 000	1 744	–	520 781
Fleurhof Project	293 246	–	–	–	293 246
Jabulani Project	18 098	–	–	–	18 098
Witpoortjie Calgro M3 Development Company (Pty) Ltd	12 902	–	–	–	12 902
South Hills Development Company (Pty) Ltd	37 132	–	–	–	37 132
Belhar Project	107 178	–	–	–	107 178
Third parties	39 481	11 000	1 744	–	52 224
<b>Combined revenue*</b>	566 734	11 000	1 744	–	579 477
Total segment revenue	508 037	11 000	1 744	–	520 781
Revenue of joint ventures and associates	58 697	–	–	–	58 697
Witpoortjie Calgro M3 Development Company (Pty) Ltd	16 744	–	–	–	16 744
South Hills Development Company (Pty) Ltd	41 952	–	–	–	41 953
<b>Gross revenue</b>	508 037	11 000	1 744	–	520 781
Point in time	143 161	10 230	1 744	–	155 135
Over time	364 876	770	–	–	365 646
Revenue	508 037	11 000	1 744	–	520 781
Gross revenue	488 531	11 000	1 744	–	501 275
Reversal of unrealised profit realised adjustment	19 506	–	–	–	19 506
Cost of sales	(475 349)	(4 734)	(927)	–	(481 010)
<b>Gross profit</b>	32 688	6 266	817	–	39 771
Other income	3 707	2 956	2 273	–	8 936
Administrative expenses	(47 176)	(4 061)	(372)	(1 059)	(52 668)
Impairment gain/(losses) on financial and contract assets	26 725	–	3 021	–	29 746
Other expenses	–	–	–	–	–
<b>Operating profit/(loss)</b>	15 944	5 161	5 739	(1 059)	25 785
Finance income	13 555	53	602	783	14 993
Finance costs	(33 712)	(7 078)	(4 045)	–	(44 835)
Share of profit/(loss) of associates/ joint venture – net of tax	923	–	–	–	923
<b>(Loss)/profit before tax</b>	(3 290)	(1 864)	2 296	(276)	(3 133)
Taxation	(9 231)	3 344	5 919	301	333
<b>(Loss)/profit after taxation</b>	(12 521)	1 480	8 215	25	(2 800)
Other comprehensive income	–	–	–	–	–
<b>Total comprehensive (expense)/income</b>	(12 521)	1 480	8 215	25	(2 800)
<b>(Loss)/profit after taxation and other comprehensive income attributable to:</b>					
– Owners of the parent	(10 856)	740	8 215	25	(1 875)
– Non-controlling interests	(1 665)	740	–	–	(925)
	(12 521)	1 480	8 215	25	(2 800)

\* 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.

## UNAUDITED CONDENSED SEGMENT REPORT FOR THE GROUP (continued)

R'000	Residential Property Development	Memorial Parks	Residential Rental Investments	Holding Company/ unallocated	Total
<b>August 2019</b>					
<b>Non-current assets</b>					
Investment property	–	14 037	–	–	14 037
Property, plant and equipment	20 749	8 801	–	–	29 550
Intangible assets	158 970	695	–	–	159 665
Investments	–	11 915	–	–	11 915
Investment in joint ventures and associates	34 239	–	119 794	–	154 033
Deferred income tax asset	31 758	3 642	6 729	15 066	57 195
	245 716	39 090	126 523	15 066	426 395
<b>Current assets</b>					
Loans to joint ventures and associates	252 680	–	12 427	–	265 107
Inventories	610 582	199 505	–	–	810 087
Current tax receivable	643	–	671	193	1 507
Construction contracts	893 461	–	–	–	893 461
Trade and other receivables	82 103	5 131	292	–	87 526
Cash and cash equivalents	160 395	2 989	498	41 531	205 413
	1 999 864	207 625	13 888	41 724	2 263 101
<b>Total assets</b>	<b>2 245 581</b>	<b>246 715</b>	<b>140 411</b>	<b>56 790</b>	<b>2 689 496</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Deferred income tax liability	137 670	3 298	–	37 120	178 088
	137 670	3 298	–	37 120	178 088
<b>Current liabilities</b>					
Borrowings	758 359	72 896	131 567	–	962 822
Current income tax liabilities	35 380	343	–	–	35 723
Trade and other payables	613 979	94 318	406	–	708 703
	1 407 718	167 557	131 973	–	1 707 248
<b>Total liabilities</b>	<b>1 545 388</b>	<b>170 855</b>	<b>131 973</b>	<b>37 120</b>	<b>1 885 336</b>

R'000	Residential Property Development	Memorial Parks	Residential Rental Investments	Holding Company/ unallocated	Total
<b>August 2018</b>					
<b>Total segment revenue</b>	616 748	11 864	–	–	628 612
Fleurhof Project	245 060	–	–	–	245 060
Jabulani Project	31 998	–	–	–	31 998
Witpoortjie Calgro M3 Development Company (Pty) Ltd	28 910	–	–	–	28 910
South Hills Development Company (Pty) Ltd	216 427	–	–	–	216 427
Belhar Project	66 975	–	–	–	66 975
Third parties	27 378	11 864	–	–	39 242
<b>Combined revenue*</b>	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 Calgro M3 Development Company (Pty) Ltd	13 395	–	–	–	13 395
South Hills Development Company (Pty) Ltd	145 332	–	–	–	145 332
<b>Gross revenue</b>	616 748	11 864	–	–	628 612
Point in time	94 913	10 578	–	–	105 491
Over time	521 835	1 286	–	–	523 121
Revenue	616 748	11 864	–	–	628 612
Gross revenue	594 715	11 864	–	–	606 579
Reversal of unrealised profit realised adjustment	(7 620)	–	–	–	(7 620)
Reversal of unrealised profit adjustment	29 653	–	–	–	29 653
Cost of sales	(519 119)	(5 212)	–	–	(524 331)
<b>Gross profit</b>	97 629	6 652	–	–	104 281
Other income	1 730	2 044	259	26 489	30 522
Administrative expenses	(59 036)	(4 964)	–	(46 117)	(110 117)
Net impairment losses on financial and contract assets	(539)	–	(897)	–	(1 436)
Other expenses	–	–	–	–	–
<b>Operating profit/(loss)</b>	39 784	3 732	(638)	(19 628)	23 250
Finance income	14 425	42	10 758	428	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
<b>Profit/(loss) before tax</b>	43 032	(1 142)	4 525	(19 200)	27 215
Taxation	(11 168)	1 808	(702)	12 559	2 497
<b>Profit/(loss) after taxation</b>	31 864	666	3 823	(6 641)	29 712
Other comprehensive income	–	–	–	–	–
<b>Total comprehensive income/(expense)</b>	31 864	666	3 823	(6 641)	29 712
<b>Profit/(loss) after taxation and other comprehensive income attributable to:</b>					
– Owners of the parent	32 741	550	3 823	(6 641)	30 473
– Non-controlling interests	(877)	116	–	–	(762)
	31 864	666	3 823	(6 641)	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.

## UNAUDITED CONDENSED SEGMENT REPORT FOR THE GROUP (continued)

R'000	Residential Property Development	Memorial Parks	Residential Rental Investments	Holding Company/ unallocated	Total
<b>Non-current assets</b>					
Investment property	–	13 444	–	–	13 444
Property, plant and equipment	3 490	6 194	–	–	9 684
Intangible assets	158 995	695	–	–	159 690
Investments	–	10 607	–	–	10 607
Investment in joint ventures and associates	32 678	–	217	–	32 895
Deferred income tax asset	–	2 475	4 287	–	6 762
	195 163	33 415	4 504	–	233 082
<b>Current assets</b>					
Loans to joint ventures and associates	39 797	–	248 551	–	288 348
Inventories	444 740	199 744	–	–	644 484
Current tax receivable	15 736	195	–	276	16 207
Construction contracts	1 319 782	–	–	–	1 319 782
Trade and other receivables	278 712	833	451	1 057	281 053
Cash and cash equivalents	79 139	834	–	23 924	103 897
	2 177 906	201 606	249 002	25 257	2 653 771
<b>Total assets</b>	<b>2 373 068</b>	<b>235 021</b>	<b>253 506</b>	<b>25 257</b>	<b>2 886 853</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Deferred income tax liability	205 575	–	–	–	205 575
	205 575	–	–	–	205 575
<b>Current liabilities</b>					
Borrowings	872 636	86 570	93 379	–	1 052 585
Current income tax liabilities	66	–	566	–	632
Trade and other payables	680 170	106 263	–	1 304	787 737
	1 552 872	192 833	93 945	1 304	1 840 954
<b>Total liabilities</b>	<b>1 758 447</b>	<b>192 833</b>	<b>93 945</b>	<b>1 304</b>	<b>2 046 529</b>

# 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 ("IFRS"). 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 P Perumalswami CA(SA) and 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's annual financial statements for the year ended 28 February 2019, 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 specific financial assets held at fair value through profit and loss. This is the first set of interim financial statements where IFRS 16 has 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 18 October 2019.

### 1.2 Judgements and estimates

Management made judgements, estimates and assumptions that affect the application of accounting policies and the reporting amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and the key source of estimation uncertainty were similar to those applied to the Group annual financial statements as at and for the year ended 28 February 2019, except for new significant judgements related to the adoption of IFRS 16 which is described in note 3.

## 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 2019, except for the adoption of new or amended standards as set out below.

### 2.1 New or amended standards adopted by the Group

A new or amended standard became effective for the current reporting period. The Group has adopted the following new standard, which is relevant to the Group, for the first time for the six-month period commencing on 1 March 2019:

► IFRS 16: *Leases*

The adoption of this standard has resulted in the Group changing its accounting policies. The impact of the adoption and the new accounting policy is disclosed in note 3.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

## 3. Changes in accounting policies

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

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

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

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 March 2019. Accordingly, the comparative information for the previous financial year has not been restated – i.e. it is presented as previously reported under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

### Definition of a lease

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

The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as a lease under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 March 2019. At 1 March 2019, the Group identified two leases for office buildings in Johannesburg and Cape Town to be capitalised.

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

### As a lessee

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

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

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

R'000	Office buildings
Balance at 1 March 2019	19 289
Balance at 31 August 2019	<b>17 715</b>

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



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

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less accumulated depreciation and impairment loss and adjusted for certain remeasurements of the lease liability.

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

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

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

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

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

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

#### **As a lessor**

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

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

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

#### **Transitional provisions – modified retrospective approach**

We have applied the modified retrospective approach on the initial application of IFRS 16.

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

- ▶ calculates the lease assets and lease liabilities as at the beginning of the current period being 1 March 2019;
- ▶ does not restate its prior-period financial information; and
- ▶ recognises an adjustment in equity at the beginning of the current period.

We have applied the new definition of a lease to all our contracts previously identified under IAS 17: *Leases*.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

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

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

#### Impact on financial statements on transition

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

R'000	1 March 2019
Right-of-use asset equal to the lease liability	22 635
Offset of the lease smoothing liability as at 28 February 2019 against the asset value	(3 346)
Right-of-use asset presented in property, plant and equipment	19 289
Lease liabilities	22 635
Retained earnings	(937)

When measuring the lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using the incremental borrowing rate at 1 March 2019 being 11.46%.

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

Also, in relation to those leases under IFRS 16, the Group has recognised depreciation and interest costs, instead of operating lease expense. During the six months ended 31 August 2019, the Group recognised R1 573 875 of depreciation and R1 277 580 of interest costs from these leases and made lease payments of R2 097 348.

R'000	As reported 1 March 2019	IFRS 16 opening balance adjustment	1 March 2019 adjusted	IFRS 16 impact for the six months to 31 August 2019	As reported 31 August 2019
<b>Statement of financial position</b>					
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	12 173	19 289	31 462	(1 574)	29 888
<b>Current assets</b>					
Bank	122 633	–	122 633	(2 098)	120 535
<b>Equity and liabilities</b>					
<b>Equity</b>					
Retained income	690 054	(937)	689 117	(2 053)	687 064
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Deferred tax liabilities	214 300	937	215 237	(798)	214 439
<b>Current liabilities</b>					
Trade and other payables	896 279	19 289	915 568	(820)	914 748

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

R'000	IFRS 16 impact for the six months to 31 August 2019
<b>Statement of comprehensive income</b>	
Administrative expenses	(1 574)
<b>Operating (loss)/profit</b>	<b>(1 574)</b>
Finance costs	(1 278)
<b>(Loss)/profit before tax</b>	<b>(2 852)</b>
Taxation	798
<b>(Loss)/profit after taxation</b>	<b>(2 053)</b>
<b>Total comprehensive income</b>	<b>(2 053)</b>

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

R'000	R'000
Operating lease commitments disclosed as at 28 February 2019	22 775
Commitments for longer than five years	8 365
Cape Town lease	1 679
	<b>32 819</b>
Discounted using the Group's incremental borrowing rate of 11.46%	<b>(10 184)</b>
Lease liability recognised as at 1 March 2019	<b>22 635</b>

#### Additional disclosure provided for property, plant and equipment

##### Accounting policy

The Group's long life assets mainly provide the infrastructure to enable the Group to operate. The assets are initially measured at cost. The cost of the assets are then recognised in the Statement of Comprehensive Income over the useful lives of the assets as a depreciation charge.

Where the residual value of buildings exceeds the carrying amount, no depreciation is provided.

The useful lives of the assets have been assessed as follows:

Leased item

- ▶ Office buildings – Based on the lease period

R'000	August 2019			February 2019		
	Cost	Accumulated depreciation	Carrying amount	Cost	Accumulated depreciation	Carrying amount
<b>Leased</b>						
Office buildings	19 289	(1 574)	17 715	–	–	–
	<b>19 289</b>	<b>(1 574)</b>	<b>17 715</b>	–	–	–

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

## 3. Changes in accounting policies (continued)

R'000	Opening balance	Adoption of new standard	Transfer from Inv Prop	Depreciation	Closing carrying amount
<b>Reconciliation of property, plant and equipment</b>					
<b>Leased – 2019</b>					
Office buildings	–	19 289	–	(1 574)	17 715
	–	19 289	–	(1 574)	17 715

### Capitalised leased assets – terms greater than one year

The following office buildings were capitalised based on their committed occupation terms:

Building type	Building location	Remaining term of lease	Value of building capitalised R'000
Main head office	Johannesburg	78 months from 1 March 2019	17 923
Branch office	Cape Town	42 months from 1 March 2019	1 366
			19 289

R'000	Unaudited August 2019	Unaudited August 2018	Audited February 2019
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## 4. Earnings reconciliation

### Determination of headline and diluted earnings

Attributable (loss)/profit to shareholders	(1 875)	30 474	3 241
Gain on deemed disposal of interest in joint venture	(2 274)	–	–
Gain on bargain purchase	–	(26 489)	(27 600)
<b>Headline and diluted headline (loss)/earnings</b>	<b>(4 149)</b>	<b>3 985</b>	<b>(24 359)</b>

### Determination of earnings and diluted earnings

Attributable (loss)/profit	(1 875)	30 474	3 241
Earnings and diluted earnings	(4 149)	3 985	(24 360)
Number of ordinary shares	128 150	128 150	128 150
Weighted average shares	128 150	128 150	128 150
Fully diluted weighted average shares	130 969	128 150	130 428

R'000	Unaudited August 2019	Audited February 2019
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## 5. Inventories

Opening balance	568 498	554 397
Additions (net of transfers to construction contracts)	256 165	91 328
Borrowing costs capitalised	5 653	22 166
Net realisable value adjustments	(5 610)	(54 453)
Disposals	(14 619)	(44 940)
<b>Closing balance</b>	<b>810 087</b>	<b>568 498</b>

R'000	Unaudited August 2019	Audited February 2019
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## 6. Construction contracts

### Disaggregated construction contracts – pre-expected credit loss provisions

Infrastructure – contract assets	19 792	315 881
Fully and partially subsidised units – contract assets	161 822	505 700
Non-subsidised units – contract assets	18 747	10 872
Serviced land – contract assets	48 166	47 343

<b>Contract assets</b>	<b>248 527</b>	<b>879 796</b>
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### Future contract asset costs

Development cost for future contract assets	652 381	434 709
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<b>Balance before expected credit loss provisions</b>	<b>900 908</b>	<b>1 314 505</b>
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### Reconciliation of construction contracts

Gross statement of financial position balance for ongoing contracts	248 527	879 796
Development cost for future contract assets	652 381	434 710
Provisions for expected credit losses on contract assets	(7 446)	(35 433)

<b>Statement of financial position balance for construction contracts</b>	<b>893 461</b>	<b>1 279 073</b>
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## 7. Financial instruments

The Group holds the following categories of financial assets and financial liabilities:

### Financial assets

Financial assets at amortised costs		
Loans to joint ventures and associates	274 607	311 393
Construction contracts – contract assets	248 527	879 796
Trade and other receivables	67 827	209 257
Cash and cash equivalents	205 413	122 633
	<b>796 374</b>	<b>1 523 079</b>

Financial assets through equity		
Investment in joint ventures and associates	154 033	153 006
	<b>154 033</b>	<b>153 006</b>

Financial assets at fair value through profit and loss		
Investments	11 915	11 090
	<b>11 915</b>	<b>11 090</b>

### Reconciliation of expected credit losses on financial assets at amortised cost – August 2019

R'000	Opening balance 1 March 2019	Current year movement	Closing balance 31 August 2019
Loans to joint ventures and associates	6 313	3 187	9 499
Construction contracts – contract assets	35 433	(27 987)	7 446
Trade and other receivables	6 792	(4 946)	1 845
Cash and cash equivalents	–	–	–
	<b>48 537</b>	<b>(29 746)</b>	<b>18 791</b>

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

## 7. Financial instruments (continued)

The group takes the following into account when determining the applicable ECL rates for financial assets.

- ▶ The probability of each project achieving its budget and probability of misestimating the outcome of a project thus having a negative impact on the project results. Overall budget variances where cost increases by more than 5% and revenue short falls exceeding 10% will have an impact increasing the overall ECL percentage.
- ▶ The relevant stage of completion of the project. If the project is at a more advanced stage of completion the certainty of revenue and cost can more accurately be determined which would lower the overall risk of default.
- ▶ The likelihood of what would happen if Calgro demanded payment. Based on precedents and informal policies Calgro would provide a joint venture or associate appropriate time to realise assets at full market value rather than forcing fire sale of assets.
- ▶ If Calgro would be willing to give support to the project to ensure its financial asset exposure to the relevant project can be recouped.
- ▶ If the project has government exposure and relies on subsidies provided by government to install the related infrastructure and services required.
- ▶ The impact of a cancellation of a project. The probability of this is higher for a project where ground construction has not yet commenced.
- ▶ The sovereign rating of the South African Government as a down grade could result in increased pressure on government spending and thus decrease government subsidy availability.
- ▶ The general impact of the economy on these developments/projects. Low to middle income earners are in most circumstances, significantly impacted by interest rates and employment levels, however, this risk is mitigated by the extreme housing shortage of this target market and the limited number of housing being developed in this market.
- ▶ Moody's investor services were used in combination with historical recovery rates on sovereign and municipal debts to determine a loss rate. This was then converted into forward looking expected credit loss by applying three macroeconomic forecast for South Africa – Baseline (SO), Stronger near term recovery (S1) and Moderate Recession (S3).

The ECL rates utilised are consistent with the rates as at 28 February 2019.

### Reasons for the current year movements in the ECL balance

#### *Loans to joint ventures and associates*

- ▶ The overall balance increased due to loans being provided to a joint venture, Witpoortjie, amounting to R204 million which is internally funded through the Calgro Group and is thus subject to a higher ECL rate compared to other loans provided to joint ventures with lower risk.

#### *Construction contracts – contract assets*

- ▶ The overall provision decreased due to the exposure to contract assets relating to infrastructure decreasing by R296 million due to all progress draw recoveries being paid which all have government-related exposure.
- ▶ A further reduction is due to the overall contract asset balance decrease of R340 million for fully and partially subsidised units as a result of units being transferred and fully paid for by customers and R107 million of units previously being constructed for AFHCO Calgro M3 Consortium (Pty) Ltd now being constructed to be sold in the open market.

#### *Trade and other receivables*

- ▶ The decrease in the provision is due to the overall decrease in the trade receivable balance of R141 million which has been settled during the period.

## 7. Financial instruments (continued)

### Reconciliation of expected credit losses on financial assets at amortised cost – February 2019

R'000	Opening balance 1 March 2018	Current year movement	Closing balance 28 February 2019
Loans to joint ventures and associates	3 323	2 990	6 313
Construction contracts – contract assets	34 471	962	35 433
Trade and other receivables	3 554	3 237	6 792
Cash and cash equivalents	–	–	–
	41 348	7 190	48 537

#### Movements in the ECL balance arose as a result of:

Due to the continued low growth in the economy and additional fiscal pressures faced by Government, the ECL rates have increased slightly to take into account the additional risk associated with the change in Government risk which increased the overall project risk compared to February 2018.

#### *Loans to joint ventures and associates*

- ▶ The overall balance increased due to loans to joint ventures increasing from R143.4 million to R317 million. This is mainly due to the increase in the loan provided to AFHCO Calgro M3 Consortium (Pty) Ltd to fund the acquisition of residential rental units.

#### *Construction contracts – contract assets*

- ▶ The overall provision increased due to the slight increase in contract asset balances compared to adjusted opening balances and the higher ECL rates applied.

#### *Trade and other receivables*

- ▶ The increase in the balance is due to a significant amount of the outstanding trade receivable balance (R36.4 million) having Government-related exposure compared to relatively no exposure at February 2018. The overall trade receivable balance also increased from R165.6 million at February 2018 to R179.9 million at February 2019 which increased the overall expected credit loss provision.

R'000	Unaudited August 2019	Audited February 2019
<b>Financial liabilities</b>		
Financial liabilities at amortised cost		
Borrowings	962 822	969 195
Trade and other payables**	659 570	825 421
	1 622 392	1 794 616

\*\* Excluding non-financial liabilities.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

### 7. Financial instruments (continued)

Comparison of carrying and fair values of applicable line items in the Statement of Financial Position:

	Carrying values		Fair value			
	Unaudited August 2019	Audited February 2019	Unaudited August 2019	Audited February 2019	Unaudited August 2019	Audited February 2019
R'000						
			Level 2		Level 3	
<b>Assets</b>						
Investments#	11 915	11 090			11 915	11 090
Investment property	14 037	14 020			14 037	14 020
<b>Liabilities</b>						
Borrowings	582 924	589 173	595 853*	601 068*	–	–

# Based on prices for units trusts held by reputable financial institutions.

\* Based on quoted prices on the Bond Exchange.

Borrowings from Proparco are carried at amortised cost.

The carrying values for loans to and from joint ventures and associates, trade and other receivables and trade payables are a reasonable approximation of their fair value.

### 8. Borrowings

R'000	Interest rate	Expiration date	Unaudited August 2019	Audited February 2019
<b>Bond Exchange</b>			<b>962 822</b>	<b>969 195</b>
Floating rate note – CGR 21	JIBAR plus 4.5%	12 October 2020	70 000	70 000
Floating rate note – CGR 24	JIBAR plus 5%	8 February 2021	20 000	20 000
Floating rate note – CGR 25	JIBAR plus 4%	27 June 2019	–	111 000
Floating rate note – CGR 27	JIBAR plus 4%	25 November 2019	46 000	46 000
Floating rate note – CGR 29	JIBAR plus 4.35%	8 February 2021	52 000	52 000
Floating rate note – CGR 32	JIBAR plus 3.9%	21 July 2020	38 000	38 000
Floating rate note – CGR 33	JIBAR plus 3.9%	22 September 2020	59 000	59 000
Floating rate note – CGR 38	JIBAR plus 4%	13 February 2021	30 000	30 000
Floating rate note – CGR 39	JIBAR plus 3.95%	4 May 2021	30 000	30 000
Floating rate note – CGR 40	JIBAR plus 3.95%	4 June 2021	51 000	51 000
Floating rate note – CGR 41	JIBAR plus 3.95%	25 June 2021	20 000	20 000
Floating rate note – CGR 42	JIBAR plus 4.5%	3 August 2023	45 000	45 000
Floating rate note – CGR 43	JIBAR plus 3.95%	8 February 2022	18 000	18 000
Floating rate note – CGR 44	JIBAR plus 3.95%	5 April 2022	104 000	–
Proparco loan	JIBAR plus 4.9%	15 September 2021	387 000	387 000
Transaction cost amortisation			(7 178)	(7 805)
<b>Total borrowings</b>			<b>962 822</b>	<b>969 195</b>

Total finance cost incurred for the period amounted to R75.7 million (August 2018: R59.8 million) of which R30.9 million (August 2018: R29.9 million) was capitalised to inventory and construction contracts.



R'000	Unaudited August 2019	Unaudited August 2018
<b>9. Revenue</b>		
<b>Disaggregated revenue</b>		
<b>Residential Property Development Segment</b>		
Infrastructure	84 749	262 870
Fully and partially subsidised units	361 023	304 659
Non-subsidised units	43 763	40 383
Serviced land sales	18 502	8 837
	<b>508 037</b>	<b>616 748</b>
<b>Memorial Parks Segment</b>		
Memorial parks burial rights	9 277	9 893
Memorial parks maintenance	771	1 286
Memorial parks burial services	952	685
	<b>11 000</b>	<b>11 864</b>
<b>Residential Property Rental Segment</b>		
Rental income Residential	1 744	–
<b>Total revenue</b>	<b>520 781</b>	<b>628 612</b>
<b>10. Cost of sales</b>		
<b>Residential Property Development Segment</b>		
Infrastructure	70 930	204 942
Fully and partially subsidised units	339 414	271 233
Non-subsidised units	50 246	36 043
Serviced land sales	14 759	6 901
	<b>475 349</b>	<b>519 119</b>
<b>Memorial Parks Segment</b>		
Memorial parks burial rights	3 288	4 086
Memorial parks maintenance	718	46
Memorial parks burial services	728	1 080
	<b>4 734</b>	<b>5 212</b>
<b>Residential Property Rental Segment</b>		
Rental Residential cost of sales	927	–
<b>Total cost of sales</b>	<b>481 010</b>	<b>524 331</b>
<b>11. Related party transactions</b>		
Compensation paid to key employees and personnel*	10 071	49 034
Finance income from related parties	11 349	12 668
Contract revenue received from joint ventures	50 034	245 337

\* Amounts include executive share scheme expense incurred by the Group not yet vested to the executive employees.

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.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENT (continued)

## 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 the reporting period.

## 13. Going concern

Based on the latest results for the six-month period ended 31 August 2019, the latest Board approved budget for 2020, as well as the available bank facilities and cash generating capability, Calgro M3 satisfies the criteria of a going concern.

## 14. JSE Listings Requirements

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

## 15. 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 2019 integrated report and has been, in accordance with the JSE Listings Requirements, available on the Company's website since May 2019. Please contact Ms I April, Group company secretary, for any additional information.

## 16. Ratio calculations

### Net debt/equity ratio

This ratio is calculated as net debt divided by equity. Net debt is calculated as total interest-bearing borrowings less cash and cash equivalents. Equity is calculated as the total equity per the statement of financial position (excluding Share-Based Payment Reserve).

R'000	Unaudited August 2019	Audited February 2019
<b>Net debt</b>		
Borrowings	962 822	969 195
Other interest-bearing borrowings	148 916	29 293
Less: Cash and cash equivalents	<b>(205 413)</b>	<b>(122 633)</b>
	<b>906 325</b>	<b>875 855</b>
<b>Equity</b>		
Stated capital	116 256	116 256
Retained income	687 242	690 054
	<b>803 498</b>	<b>806 310</b>
<b>Net debt/equity ratio</b>	<b>1.13</b>	<b>1.09</b>

The maximum allowed net debt: equity ratio for the Group is 1.5:1.

## 16. Ratio calculations (continued)

### Debt Service Cover Ratio ("DSCR")

Group monitors capital repayments and interest serviceability on the basis of its DSCR. The minimum allowed DSCR ratio 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 cash generated from/(utilised in) operating activities plus new financial indebtedness incurred plus cash and cash equivalent at the beginning of the year plus the aggregate amount spent on the purchase of property, plant and equipment, purchase of intangible assets, acquisition of business, acquisition of subsidiaries, and loans advanced to joint ventures and associates for investment purposes (Capex). Debt service requirement is calculated as Interest and fees plus principal repayments.

R'000	Unaudited August 2019	Audited February 2019
<b>Available cash flow</b>		
Cash generated from/(utilised in) operating activities	449 469	298 290
New financial indebtedness incurred	–	296 000
Cash and cash equivalent BoY	122 633	156 723
Capex	<b>(142 802)</b>	(298 161)
	<b>429 300</b>	452 852
<b>Debt service requirement</b>		
Interests and fees	<b>(63 703)</b>	(115 459)
Principal repayments	<b>(111 000)</b>	(193 000)
	<b>(174 703)</b>	(308 459)
<b>Debt Service Cover Ratio ("DSCR")</b>	<b>2.46</b>	1.47

Refer to the Statement of Cash Flows for the above balances.

### Proparco requirements

The Group monitors capital from Proparco on the basis of its Debt Service Cover ratio and its Net Debt/Equity ratio (as above). The minimum allowed Debt Service Cover ratio for the Group is 1.2 and the maximum Net Debt/Equity ratio of 1.5:1.



**Directors**

MN Nkuhlu

W Williams

WA Joubert (Group Financial Director)

WJ Lategan (Chief Executive Officer)

GS Hauptfleisch\*\*

H Ntene\*\*

ME Gama\*\*

PF Radebe (Chairperson)\*#

RB Patmore\*\*

\* *Non-executive*

# *Independent*

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Bryanston

2196

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**Transfer secretaries**

Computershare Investor Services (Pty) Ltd

Rosebank Towers

15 Biermann Avenue

Rosebank

2196

PO Box 61051, Marshalltown, 2107

**Sponsor**

Grindrod Bank Limited

**Company secretary**

I April

**Auditors**

PricewaterhouseCoopers Inc.

**Date of announcement**

21 October 2019

**Website**

[www.calgrom3.com](http://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.

