

CALGRO M3 HOLDINGS LIMITED

(Incorporated in the Republic of South Africa)

(Registration number: 2005/027663/06)

JSE Share code: CGR

ISIN: ZAE000109203

("the Company")



CATEGORY 2 DISPOSAL ANNOUNCEMENT

1. INTRODUCTION

Shareholders are advised that on 28 June 2020 ("**Signature Date**"), the Company, through its wholly owned subsidiary Calgro M3 Real Estate Proprietary Limited ("**Calgro M3 Real Estate**"), entered into, *inter alia*:

- 1.1. an implementation, payments and common terms agreement ("**Implementation Agreement**") with, *inter alios*, Afhco Holdings Proprietary Limited ("**Afhco Holdings**" or "**Purchaser**"), a wholly owned subsidiary of SA Corporate Real Estate Limited ("**SA Corporate**"), and Calgro M3 JCO Holdings Proprietary Limited (the "**JV Company**");
- 1.2. a share buyback agreement with the JV Company ("**Share Buyback Agreement**"); and
- 1.3. a loan agreement with the JV Company and Afhco Holdings ("**Loan Agreement**"),

(collectively the "**Agreements**"), in terms of which, subject to the fulfillment or waiver (to the extent permissible) of the conditions precedent set out in paragraph 6 ("**Conditions Precedent**"), *inter alia*:

- 1.4. the JV Company will buy back all of the ordinary shares held by Calgro M3 Real Estate in the issued ordinary share capital of the JV Company ("**Buyback Shares**") on loan account ("**Share Buyback**"), in terms of the Share Buyback Agreement;
- 1.5. following the Share Buyback, the Purchaser will acquire the outstanding loan claims of Calgro M3 Real Estate against the JV Company, comprising an existing outstanding loan claim against the JV Company and the loan claim created by the Share Buyback, as well as a third party debt, in aggregate amounting to R150 435 212.

(collectively the "**Disposal**").

2. DESCRIPTION OF THE BUSINESS OF THE JV COMPANY AND PARTICULARS OF THE DISPOSAL

- 2.1. In November 2018, Calgro M3 Real Estate and HJC Holding Proprietary Limited ("**HJC Holding**") established a joint initiative company, the JV Company. As at the Signature Date, Calgro M3 Real Estate and HJC Holding own 80% and 20% of the issued share capital in the JV Company, respectively.
- 2.2. The JV Company was established, *inter alia*, due to the fact that HJC Holding, through its wholly owned subsidiary, JCO Construction Proprietary Limited ("**JCO Construction**"), had agreed to grant the JV Company a preferential right to acquire certain of the residential sectional title units that it, JCO Construction, was developing.

This provided Calgro M3 Real Estate with a further platform to expand and diversify its residential rental portfolio.

- 2.3. The first and only development that was acquired by the JV Company on or about 27 November 2018, through its wholly owned subsidiary, The Falls Rental Company Proprietary Limited ("**The Falls Rental Company**") from JCO Construction, was 480 residential sectional title units ("**the Units**") which are in the process of being developed in The Falls development in Ruimsig, Roodepoort, for a total purchase consideration of R420 360 000. As at the Signature Date, 160 of the Units have been completed, paid for, and transferred into the name of The Falls Rental Company ("**Completed Units**"), with the remaining 320 Units still in various stages of construction ("**Incomplete Units**").
- 2.4. The Completed Units are the only Units to have been transferred into the name of The Falls Rental Company pursuant to the transaction concluded with JCO Construction, with the value of the Completed Units and deposits paid by The Falls Rental Company for the Incomplete Units representing the value of the Buyback Shares..
- 2.5. As at the Signature Date, Calgro M3 Real Estate owns 96 shares in the issued ordinary share capital of the JV Company comprising 80% of the issued ordinary share capital of the JV Company and has an outstanding loan claim, in the amount of R12 647 580 ("**Existing Loan Claim**"), against the JV Company.
- 2.6. Subject to the fulfilment or waiver (to the extent permissible), of the Conditions Precedent, the Disposal will be implemented as follows:
 - 2.6.1. the JV Company will buy back the 96 ordinary shares held by Calgro M3 Real Estate in the issued share capital of the JV Company, on loan account in the amount of R119 793 746 ("**Buyback Loan Claim**");
 - 2.6.2. Calgro M3 Real Estate will cede and assign to Afhco Holdings, outstanding loan claims owed to Calgro M3 Real Estate in the amount of R150 435 212, comprising the Buyback Loan Claim, the Existing Loan Claim and a third party debt in the amount of R14 368 000 ("**Third Party Claim**"); and
 - 2.6.3. Afhco Holdings will thereafter settle the aggregate outstanding loan claims of Calgro M3 Real Estate as set out in paragraph 2.6.2, of R150 435 212 ("**Disposal Consideration**").

3. RATIONALE FOR THE DISPOSAL

The Disposal is in line with the Company's strategic short-term decision of selling all its existing rental units to utilise the proceeds to reduce and restructure the Company's debt in line with the commentary to the Company's 29 February 2020 year-end results, released on 18 May 2020.

4. DISPOSAL CONSIDERATION

- 4.1. The Disposal Consideration of R150 435 212 is an amount equal to the Buyback Loan Claim, the Existing Loan Claim and the Third Party Claim. The parties to the Agreements have agreed that Afhco Holdings will, or it will procure that, approximately R141 431 815.82 less the available balance in the Falls Rental Company Absa Call Account on the effective date of the Disposal ("**Absa Call Account Amount**") of the Disposal Consideration will be settled by way of set-off against the third party debt obligations of Calgro M3 Real Estate (and its subsidiaries) as detailed below, and the balance of the Disposal Consideration will be paid to Calgro M3 Real Estate in cash.

- 4.2. The Disposal Consideration will be settled by the JV Company as follows:
- 4.2.1. R104 000 000 through the settlement of the 3-year note, listed on the Calgro M3 Developments Limited debt capital markets program in favour of SA Corporate, pursuant to the dissolution of the Afhco Calgro M3 Consortium joint initiative in February 2019;
 - 4.2.2. R17 834 123 to be set off against a rental guarantee owed by Calgro M3 Land Proprietary Limited to SA Corporate Retail Proprietary Limited pursuant to the agreement of sale concluded in respect of the La Vie Nouvelle Frail Care facility;
 - 4.2.3. the settlement of a R19 597 691 obligation of Calgro M3 Real Estate owed to the JV Company for cost and interest provisions for the next 12 months, less the available balance in the Falls Rental Company Absa Call Account on the effective date of the Disposal ("**Absa Call Account Amount**"); and
 - 4.2.4. R9 003 397 plus the Absa Call Account Amount to be paid in cash to Calgro M3 Real Estate, once a total of 250 Units have been handed over by JCO Construction to Afhco Holdings, which is expected by 30 November 2020.
- 4.3. The Disposal Consideration reflects the aggregate of the fair value of the Buyback Shares and the face value of the Existing Loan Claim and Third Party Claim on the effective date of the Disposal.

5. APPLICATION OF THE DISPOSAL CONSIDERATION

The Disposal Consideration will be applied in the reduction of the Company's debt and liabilities, with the remaining balance being applied to operational requirements.

6. CONDITIONS PRECEDENT

- 6.1. The Disposal is subject to the fulfilment or waiver (to the extent permissible) of the following material outstanding Conditions Precedent:

by not later than 30 days after 30 June 2020:

- 6.1.1. Absa Bank Limited as the JV Company funder, confirms in writing that it has no objection to the substitution of Calgro M3 Real Estate with Afhco Holdings as shareholder of the JV Company;
- 6.1.2. Nedbank Limited as the JCO Construction development funder and holder of the first bond over the properties on which the Units are being developed approves the registration of second bonds in favour of Afhco Holdings over the properties;
- 6.1.3. Afhco Holdings concludes a satisfactory due diligence investigation into the Falls Lifestyle Estate Sectional Title Scheme Body Corporate and the property on which the remainder of the Units are being developed,

by not later than 120 days after 30 June 2020:

- 6.1.4. the substitution of Calgro M3 Real Estate by Afhco Holdings as the shareholder of the JV Company and to the extent necessary, all agreements and transactions contemplated in the Implementation Agreement have been unconditionally approved by the relevant competition authorities in terms of the Competition Act, No. 89 of 1998, or conditionally approved on terms and conditions acceptable to all parties to the Implementation Agreement.
- 6.2. The dates for fulfilment of the Conditions Precedent may be extended by the parties to the Agreements in writing.

7. EFFECTIVE DATE OF THE DISPOSAL

Delivery and payment in respect of the Disposal will take place on the 3rd business day following the date on which the last of the Conditions Precedent are fulfilled or waived, as the case may be. The anticipated effective date of the Disposal is 31 August 2020.

8. FINANCIAL INFORMATION

- 8.1. As at 29 February 2020, being the date of the latest published annual financial statements of the JV Company, the assets being disposed of by Calgro M3 Real Estate comprise of an investment by Calgro M3 Real Estate of R119 793 746 being the Buyback Shares (the Buyback Loan Claim), a loan to the JV Company and associates of R12 647 580 (the Existing Loan Claim), and a related debtor to a subsidiary of the JV Company of R14 368 000 (the Third Party Claim), thereby bringing the total investment amount to R146 809 326 (the “**Assets**”).
- 8.2. Based on the audited annual financial statements of Calgro M3 Real Estate and unaudited annual financial statements of the Company for the year ending 29 February 2020, prepared in terms of IFRS, the Assets did not yield any profit or loss. As at the Signature Date, the net asset value of the JV Company was R129 200 000. The profit (before shareholder loan interest) attributable to the assets of the JV Company was R1 million and loss after shareholders interest and tax was R146 011.
- 8.3. The financial information relating to the sole development of the JV Company, is as follows:

Project name and location ¹	Gross Rentable area (m ²)	Weighted average rental per m ²	Value attributed to the 80% Share Buyback from Calgro M3 Real Estate (ZAR)
Ruimsig (Johannesburg – west rand, Gauteng)	Estimated to be 37 152	R 116,54	R150 435 212

Notes:

1. *The projects are all in the residential sector and multi tenanted.*
2. *No independent valuation has been carried out and the board of directors of the Company is of the view that the values attributed to the Ruimsig project above represents the value of the project.*

9. WARRANTIES AND OTHER SIGNIFICANT TERMS OF THE AGREEMENT

The Agreements contains representations, warranties and indemnities by Calgro M3 Real Estate in favour of Afhco Holdings and the JV Company, which are standard for a transaction of this nature.

10. CLASSIFICATION OF THE DISPOSAL

The Disposal constitutes a category 2 transaction in terms of the JSE Limited Listings Requirements.

29 June 2020

Sponsor

PSG Capital

